FINANCING EXPORT SHIPMENTS

F. R. ELDRIDGE

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BY
F. R. ELDRIDGE
Author of "Trading with Asia" and "Oriental Trade Methods"

WITHDRAWN

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FOREWORD

The subject of American export financing has nowhere been treated as a comprehensive whole so far as the writer has been able to ascertain. Innumerable bank booklets and pamphlets on one or more phases of the subject have been issued from time to time and some excellent desk books, replete with technical instructions and phrases, almost unintelligible to the novice, have found wide distribution. Similarly booklets on various regions, describing the financing difficulties to be encountered, have received wide circulation. Nearly every textbook or treatise on foreign trade technique contains one or more chapters on financing. In my opinion none of these may be considered in itself a comprehensive or complete treatment of the subject.

What I am attempting in this book, therefore, is a thorough discussion of the most commonly used forms of export financing. The aim is particularly to explain the reasons why these different methods are utilized under varying circumstances, as it has been my observation that the most common cause of difficulty in export financing arises from a failure to adopt the *proper method* of financing.

For this purpose I have dealt first with the three great factors which should help to determine the type of financing employed: the credit position of

the consignee; the peculiarities of the market for which the shipment is destined; and the character of the commodity itself. That there are other factors which might and should affect the type of financing is indisputable and it is hoped that they will be touched upon or referred to in the course of the discussions which follow. The above, however, are considered the three major factors, and such other influences as arise might easily be described as secondary factors coming wholly or partly within these categories.

I have considered it important to treat these three phases of the subject first, even before I have entered upon detailed discussion of method. In the first chapter, however, I have tried to explain the meaning of terms ordinarily used in the preliminary discussions. In adopting this arrangement I realize that I may have departed somewhat from the usual textbook form, but I have done so deliberately, with the feeling that once fundamental principles are clear, the subsequent discussion of their application can be carried on with, perhaps, far better discernment of the reasons for their adoption.

I am especially indebted to such expert authorities as Mr. J. J. Rogers, Manager of the Equitable Eastern Bank, who very kindly went over Chapter I; Mr. W. J. Swingle, Manager, Foreign Department, National Credit Men's Association, who reviewed Chapters II and X; Mr. Harry Hertz, President, Dayton, Price & Co., who gave me many valuable suggestions on Chapter III; Messrs. Benjamin

Strong and W. T. Kelly of the International Acceptance Bank, who were of great assistance in reviewing Chapters IV and V, respectively; Mr. Earnest Taub, of the Commercial Investment Trust, who rendered valuable aid in going over Chapter VI; Mr. Robert Bean, of the American Acceptance Council, who looked over Chapter VII; and Mr. Mark Currie, Vice President of the National City Bank, who placed the seal of his approval on Chapter VIII.

F. R. Eldridge.

New York, October, 1929.

FINANCING EXPORT SHIPMENTS

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CHAPTER I

Financing Export Shipments

The financing of export shipments, while not an exact science, has been so standardized and simplified that the practices and rules can now be set down with some assurance of permanency. This was, perhaps, not true a decade ago when exchange fluctuations and depreciated currencies added hazards to financing shipments abroad, and numerous precautions were necessary to prevent a profitable commercial transaction from becoming a loss due to inexpert handling of the financial end.

Mysteries of Export Financing.—There are, however, a great many manufacturers in this country today who have not yet attempted to sell their product abroad. To them, no doubt, foreign markets represent all the risks and all the terrors of a jungle. Many of them, no doubt, at one time or another have been persuaded into deals by unscrupulous merchants abroad in whom they have, perhaps, reposed that same trust and confidence which they can display toward business men of the same rating and

importance in the United States. Yet the results may have been so unsatisfactory that they have lost faith in human nature, at least in that brand which they have encountered abroad.

Export Financing from Inland Points.—Nine-tenths of these difficulties arise from an ignorance of the technique of export financing. To the manufacturer resident near such large cities as New York, Chicago, and San Francisco, difficulties of this character could easily be ironed out by the personal services offered by the large banks. But the inland exporter, relying upon his local banking institution for such service, may be at a disadvantage although export financing is now well understood by many inland institutions as well.

Technique of Inland Financing.—In this connection, the following extract from an article appearing in *Commerce Reports* of August 12, 1929, is enlightening:

> In the handling of shipments for foreign ports inland banks place the principal portion of their financing, as a rule, on their New York correspondents. Take the case of a man shipping lumber to Morocco. The local shipper will prepare his drafts drawn on the foreign purchaser and will attach to the drafts (all drawn in duplicate, of course) the bills of lading, invoices, insurance certificates, etc. The local bank gives the shipper immediate credit for the proceeds of the drafts, sending all papers to its correspondent bank in New York. The New York bank checks the documents again and routes the transaction to one of its own branches or to a correspondent abroad. When credit is received by the New York bank,[1] it

[1] Ed. Note: More often the New York bank credits the inland bank immediately.

in turn credits the inland bank; and the inland bank credits the proceeds, less interest for the elapsed time and any expenses incurred, against the advance made to the shipper. From the standpoint of the inland bank this particular type of transaction is not complicated. It means, of course, that the bank must have a suitable connection in the East, and that the customer must be in good standing with the local bank, because the security which the bank "cashes" for him is shipped to a foreign country and it would be both difficult and expensive to realize on it.

Cotton and some other commodities are generally handled in the following way: The purchaser, say, in Germany arranges through his own bank for a letter of credit with some New York bank. The Memphis shipper, upon being notified of this credit, draws direct on the New York bank, his draft being accompanied by the usual export documents in duplicate. The New York bank, upon receipt of the draft through its Memphis correspondent, accepts the instrument, selling the acceptance [1] in the New York exchange market and sending the accompanying documents abroad. The Memphis bank's place in the transaction is that, upon presentation, it advances to the shipper the funds called for on the face of the unaccepted draft,[2] deducting only exchange on New York. This type of transaction is extremely safe from the standpoint of the inland bank; and if the purchaser abroad knows the shipper to be a responsible party it is a good transaction from his standpoint. An irresponsible shipper, however, is sometimes unable to repay the foreign purchaser for claims resulting from rejection of shipments that are not up to specifications.

Inland banks undertake to check documents to see that they are in order, but inasmuch as we [3] are so far from the port

[1] Ed. Note: It is often more profitable to hold the acceptance depending on the difference between rates quoted for acceptances and those for other short term accommodation.

[2] Ed. Note: Less discount.

[3] Ed. Note: That is, the inland bank.

we do not try to "cover" drafts payable in foreign money. Instruments of that sort are sold outright by the inland bank to its New York correspondent.

As can be readily seen from the above, inland exporters in many of our cities enjoy practically all of the facilities of their competitors in the great metropolitan centers. The plea of ignorance or lack of facilities, therefore, becomes more and more unjustified as the knowledge of export technique spreads to even the smallest centers in the country.

Credit of Consignee.—The credit of the consignee, or firm or person to whom the goods are shipped, is undoubtedly the most deciding factor in determining the mode of financing an export shipment. The judgment of the credit department in determining whether or not a given foreign customer should or should not be allowed the credit he asks for, is the first and most important step. We shall endeavor to show what considerations should influence that judgment and, if possible, to ease the stony path of the credit manager, who is often torn between the acquisitive desire to permit an export order to "get by" and the onerous duty of protecting his company from unnecessary risk.

Nature of Market.—In reaching this decision the credit man has many things to consider. Not least among these is the nature of the market for which the shipment is destined. He should know its peculiarities and be familiar with the usages and customs which influence the importation and distribution of merchandise. Not long ago we had occasion to talk

with the export manager of one of the large distributors of a nationally advertised food product which also found considerable sale abroad. We asked about credit losses.

"Oh," replied the export manager, "we never worry about a man's credit. If the insurance company accepts him we ship. Otherwise we turn him down."

We admit that many of the export manager's worries are automatically canceled under such an arrangement and perhaps the cost of insurance in this instance would average no greater than the annual credit loss. But there has undoubtedly been much profitable business turned down under this method simply because the facilities of the insurance company do not fully cover the particular market.

Character of Product.—Similarly the credit manager must be guided largely by the character of his product itself. Is it subject to constant and wide price fluctuation? Is it being distributed on the partial or time payment plan abroad? Is it equipment or machinery against which a lien may be easily taken? Is it a product entering almost immediately into consumption and not easily mortgaged or repossessed? These questions have an overwhelming influence on the type of financing, and the credit manager will find that well-defined methods have been worked out for commodities falling within all of these great groups.

Letters of Credit.—If he is in the business of exporting he will undoubtedly be familiar with the irrevocable letter of credit which is the safest and

best method of financing exports. Whenever the foreign buyer can be persuaded to open up such a credit in favor of the exporter, he has practically paid cash in advance. The exporter's financing worries, so far as that shipment is concerned, are over.

Time Payments Abroad.—If he is engaged in selling motor cars or articles of a similar nature, usually sold abroad on the deferred payment plan, he will want to know the most advantageous method of placing his product in the hands of his foreign customers with the greatest assurance that the periodical payments will be promptly met, or failing that, that the merchandise may be repossessed and disposed of without a loss. In many cases letters of credit are opened by the foreign dealer in favor of the exporter. His interest in the dealer's financing is therefore, only secondary. This is one field of financing not yet fully developed in which innovations and improvements in the technique of financing are still being rapidly introduced. Each of these is necessarily designed to meet some new contingency which has arisen in the everyday experience of those exporters and finance companies who are pioneering abroad in this difficult field of finance.

Acceptances in Foreign Financing.—The limitation and proper use of acceptances in foreign markets is a subject that presents room for honest difference of opinion. The adoption of this device in domestic business is by no means universal, notwithstanding a long period of educational endeavor on the part of banking institutions and organizations who realize

its merit. Its almost universal use in many foreign countries brings up the question of its adaptability to foreign-trade financing and the best opinion on this subject will undoubtedly be of interest to all exporters in a position to utilize this mode of financing to advantage.

Cash or Credit.—When the financing of consumers' goods is considered, a great many variations are at once available. All of them, however, revolve around two points. Is title to the goods to be retained until the draft is met or is title to pass to the consignee on his written promise to pay at a definite future date? Here both the customs and peculiarities of the market and the character of the commodity play a dual rôle with the credit of the consignee. At best, only the basic rules underlying standard practice can be stated after which the nature of each particular case must, in the last analysis, be the deciding factor.

Evaluating Credit Information.—We are all familiar with the typical credit report which estimates a merchant "net worth" as so much. It is our opinion that "net worth" is far less of a determining factor in export financing than "general reputation." In other words a man's record for meeting his obligations is far more important than how much money his balance sheet shows him to be worth. Whenever a foreign customer asks for credit he should be willing and ready to give such evidence of his past record as will permit the exporter to form an intelligent estimate of his standing as a credit risk. Unwillingness to do so or indignant refusal is generally a pretty

good sign that there is an "Ethiopian in the wood pile." To know under what circumstances and conditions to permit the consignee of consumers' goods to accept a draft and take possession of the goods, is sometimes nothing less than a mark of genius.

D/P and D/A Shipments.—Shipments C.O.D., or documents against payment, is not always as safe as it appears. There are many pitfalls for the unwary exporter even in this apparently water-tight method of financing and the use of it by no means absolves the exporter from all further cause of worry. While the shipment can probably be sold by the bank or other accredited agent if the draft is refused payment by the consignee, there is no assurance that it can be disposed of at a profit. D/P shipments, or those in which the documents are retained by the bank until the draft is paid, require almost as much care as far as checking the responsibility of the consignee is concerned as do D/A shipments, or those where documents are released when the draft is accepted by the drawee.

Legal Phases to Be Watched.—Every country in the world has its own laws regarding the manner of handling drafts within their jurisdiction, many of which differ in more than one respect. Before a financial transaction can be intelligently consummated in any foreign market the exporter should know what the stamp duties are and how they are levied. The legal time limits within which drafts may be presented, accepted, or paid and the customary periods allowed for inspection of merchandise before drafts

are accepted or paid all differ in the various foreign markets. It is important to know what the rights of the exporter are in the various emergencies which inevitably arise when drafts are presented for payment or acceptance abroad. Such questions as the days of grace allowed, the costs and procedure with reference to "noting" and protesting drafts, the procedure in case of extension and the legal action that can be taken for non-acceptance or non-payment are all based upon local laws of the various foreign countries to which the shipment may be consigned. These are all-important points and exact information is necessary in each instance if the expense of cabling back and forth is to be avoided. Such information has been compiled and is available in the larger American cities.

Instructions with Drafts.—In drawing drafts the exporter financing the foreign shipment is given great latitude in determining just how the draft is to be handled by the bank. He decides and instructs the bank through whom he draws, for example, whether the draft is to be presented by the correspondent bank abroad on receipt of the draft or on the arrival of the vessel carrying the goods. This is an important point because documents seldom arrive on the same vessel with the goods but are mailed by fast mail steamers and sometimes arrive days before the shipment. Where it is agreed between the exporter and the consignee that he may inspect the goods before accepting or paying the draft, instructions to present the draft to him on its receipt will inevitably cause

complications. Unless, therefore, the exporter is certain that the documents have gone forward on the same steamer he should instruct the foreign bank to present the documents on arrival of the vessel carrying the goods, unless he has reason to believe that the consignee will accept or pay the draft without seeing the goods or knowing they have arrived in port. The exporter may also instruct the bank whether or not to protest the draft for non-acceptance or non-payment. Protest fees are generally an item to be reckoned with and the bank is usually unwilling to act without definite instructions on this point. The bank should also be instructed whether to advise by cable or mail of just what disposition is made of the draft. There are also detailed instructions to be given as to how the proceeds are to be remitted and who is to be empowered to sell the goods in case they are not taken over by the consignee.

Discounting of Commercial Bills.—The complete compliance with all these details is necessary before the draft becomes "commercial paper" and can be negotiated as such. Few exporters realize that their foreign drafts are almost as marketable a product as their merchandise. Every acceptance bank is constantly discounting bills of exchange on practically all foreign markets. Not all banks have correspondents in all foreign markets to whom they may send these drafts for collection. Only a very few maintain foreign branches of their own. Every export transaction, however, involves the sale of foreign exchange

by the bank. At the same time the bank is receiving drafts from foreign banks for collection from American firms.

Most banks seek to maintain an equilibrium in their discount transactions which will prevent as much foreign cabling and letter writing as possible. The media of exchange, however, are the drafts drawn by third parties in settlement of bona fide commercial transactions.

Prime Commercial Paper.—The question of the standing both of the drawer and drawee of such drafts is also naturally a vital consideration. Banks dislike to deal in paper or to pass it on to a correspondent abroad if it is liable to involve long-delayed settlement or legal complications. While, in purchasing such paper from another bank, no direct loss through failure to collect is involved on the part of the purchasing bank, as recourse is always to be had on the indorser immediately preceding, paper bearing the names of commercial firms enjoying a high standing which is known as "prime" paper is more readily negotiable than that of the less favorably known concerns. Drafts drawn "without recourse" are, as a result, most difficult to resell unless the standing of the maker and drawer is of the highest.

Careless Financing Expensive.—From the above suggestions it will be readily appreciated that the financing of export shipments is far from a perfunctory procedure. The amount of money wasted each year in cables with reference to drafts dishonored abroad runs into an astonishing total. Exporters

operating on a narrow margin, therefore, find it extremely important to follow the financing of their shipments quite as carefully as they do the original sale and shipment. It can be readily seen that careless financing sometimes absorbs all the profits in a given transaction or turns a profit into a loss. The machinery which has been set up for financing exports is necessarily not perfect. Nothing can take the place of due diligence and careful investigation. But a thorough knowledge of all the contingencies which may arise in the course of a given transaction should be highly useful as a guide to the exporter. Such is the purpose of the succeeding chapters.

CHAPTER II

Credit Information Essential in Export Financing

It is as a rule only after an export sale has been consummated or the export order has been booked that the exporter or manufacturer unversed in export procedure begins to think of how he is going to get his money. He is then faced by certain facts in regard to exporting which unfortunately are inescapable. No bank, he finds, is prepared to assume his risks except under special arrangements at a possibly prohibitive cost and, likewise, there is no way in which a possible loss through failure of a foreign consignee to take up a draft can be entirely avoided. This is not a very hopeful outlook, credit information on many foreign firms being difficult to obtain. It is little wonder, therefore, that most exporters, especially the novices in the game, finally demand cash with order or letter of credit for part or all of the shipment before they allow the goods to leave their warehouses.

Credit Information Should Be Obtained with Order.—In many respects this is regrettable and all the more so because with a little care and prevision much delay and grief in financing can be avoided. It is an indisputable fact that there is a peculiar psychological complex common to many manufacturers and

exporters which prevents them, during preliminary negotiations with foreign firms, from bringing up the all-vital question of credit and financial responsibility. Such discussions in preliminary correspondence are held to be taboo and the paradox in such an attitude is that the foreigner usually expects such investigation and is prepared for it *during* negotiations. Failing to receive any intimation in the way of an inquiry from his American correspondent as to his financial standing he may assume that, with our thorough-going efficiency, the American firm has devised ways and means of checking up on him without his knowledge. The important point is, however, that he is often prepared to furnish references and give names of American firms with whom he has done business if he were simply asked to do so. Such information leading to the obtaining of ledger experience from other American firms would of course constitute the best basis for a credit rating. Not long ago the New York Office of the Bureau of Foreign and Domestic Commerce was instrumental in bringing to the attention of a manufacturer an opportunity for the sale of equipment for a large theater abroad. After the usual preliminary negotiations by mail and cable the order was booked. It was only at this stage that the manufacturer began to conjecture about payment. Although the equipment was ordered for immediate delivery he was still, two months after the preliminary negotiations were begun, haggling with the foreign customer over terms of payment.

Sources of Foreign Credit Information.—Having failed to obtain such information the exporter is indeed at a loss. The order may specify D/A terms or their equivalent which is tantamount to extending credit on open account for 30, 60, or 90 days with the goods in the possession of the foreign consignee. Faced with the possibility of losing the order and not knowing whether his customer's standing warrants the accommodation requested, the American exporter must act quickly as there are usually definite delivery dates to be observed. The files of the Department of Commerce may contain a sales information report on his customer and if so may list the other American manufacturers he represents who could give information of value. Some of the larger banks may have more or less complete credit information on the foreign firms, but such information is of course available only to their own customers. The facilities of the usual domestic credit agencies have been extended to certain foreign markets and supply fairly complete information where they function. With all of these sources consulted and perhaps exhausted without result, there still remain the credit associations, whose foreign files, constituting an exchange of ledger experience, are constantly growing. These again are only available to members. As a last resort bankruptcy insurance, if the shipment warrants, can be taken out on the foreign customer for a consideration.

Information Essential in Granting Proper Terms.—Credit and finance being inextricably interwoven in

any export transaction, it can readily be seen that the credit set-up must be determined on a fairly accurate basis before any terms of financing can be intelligently considered. The foreign customer will undoubtedly demand accommodation equivalent to that which he has obtained from European exporters. These are invariably more lenient than anything an American manufacturer is willing to extend. This is partially explained by more extensive European facilities for establishing the credit standing of foreign firms due to their long-established connections and far-flung branches. The five largest British commercial banks have an aggregate of 8,500 branches at home and abroad, all of them sources of credit information. Alternate terms usually offered by American manufacturers are as a rule unacceptable to the foreign customer. Many an export order, therefore, has been canceled and much business has been lost to American manufacturers merely because of the lack of knowledge of the existing facilities for obtaining credit information at his disposal.

Credit Insurance Not Always Necessary.—One method of obviating much of the difficulty has already been suggested: full information covering the financial responsibility of the prospective customer should be obtained simultaneously with the negotiation of the business. Another suggestion is that of still greater cooperation in the exchange of ledger experience through appropriate associations established for this purpose. Credit insurance has, of course, been suggested from time to time, but no

adequate credit insurance facilities as yet exist whereby the exporter may be relieved of the responsibilities of careful checking and reasonable safeguards in financing his export shipments. Even the credit insurance facilities offered at present in England and Germany do not obviate these precautions. Some European governments are undertaking partially to underwrite credit risks under government subsidy. Credit insurance, however, while simplifying the financing problem, is not conducive to the close relationship between exporter and foreign customer that springs up from mutual investigations resulting in mutual confidence. With proper investigation credit insurance expense can be dispensed with and better results obtained at lower ultimate cost. As in many other lines of activity the easiest way is not always the most effective.

Hazard Varies with Nature of Commodity.—Shippers sometimes testify at export conventions that their foreign credit losses are lower than their domestic losses and for them there appears to be no problem presented in financing export shipments with little expense and absolute safety. While this may be true of certain lines of goods, particularly volume sales of standard products, or those readily resalable abroad, exporters of specially manufactured goods such as machines built to individual specifications will find that they are confronted by an entirely different set of circumstances. As a rule such products are not easily resalable because of their special character even though title is retained until the draft is paid.

The exporter is, as a result, almost inevitably faced with a loss unless the credit references of the consignee are of the best.

Reliability of Consignee is Key.—It is, therefore, difficult to generalize on the whole subject of financing export shipments. The character of the product, the extent of the market to which it is shipped, and the reliability of the consignee are all vital considerations in determining the type of financing employed. In evaluating these factors each manufacturer is, perhaps, his own best counselor. First of all, however, he must determine the reliability of his consignee, for no mode of foreign financing is so perfect as to prevent loss in case the consignee is unscrupulous or is intent upon defrauding the exporter. If he relies upon the usual sources of credit information and assembles the information from each of a number of sources such as those suggested above, he can usually draw a pretty accurate picture of the moral and financial responsibility of his prospective customers.

The Human Element.—There are many instances, however, where this is difficult. The experience of one exporter with his prospective customer may have been a happy and profitable one. The experience of another exporter with the same foreign customer may prove the reverse. I have in mind a case which came to my attention recently. A certain foreign merchant whose reputation for shady dealing had become notoriously and unfavorably known to the trade in a certain market abroad applied to an Ameri-

can manufacturer for the representation of his line in that territory. The offer was accompanied by a good-sized trial order and the manufacturer accepted forthwith, without extended investigation. Dealing at first on a cash with order basis the foreigner gradually gained the confidence of the manufacturer and eventually suggested first D/P and then D/A shipments. As the volume of business was by this time a comparatively large one for that market the manufacturer agreed to make a good-sized shipment with documents against acceptance. A few days later the export manager attended a round table discussion on that particular market held by a credit association. When he asked those present what they knew about the foreign customer in question he received several very unfavorable reports. He in turn gave his experience which had now extended over a period of nearly a year. The others present warned him that he would regret his decision to give the foreigner credit. Notwithstanding their admonition he let the shipment go forward. However, on account of the fact that his product was a patented article in special demand, the accepted draft was paid promptly at maturity and his subsequent experiences with that particular foreign firm have been eminently satisfactory in every respect. The element of selfish interest, of course, enters into foreign financing as it does into every other human relationship. But such an experience, unless such special factors are taken into consideration, in no way justifies haphazard methods of financing.

Eternal Vigilance Is the Price of Credit Peace of Mind.—Where one exporter will have an experience of this kind many will come to grief over circumstances of an exactly opposite nature. The record is full of foreign firms who have built up an excellent reputation for the prompt meeting of their obligations only to fail suddenly when a long period of accommodation had lulled the American exporter into perfect confidence and the resulting extension of the most lenient terms. The only precaution against such occurrence is eternal vigilance. Nothing in export financing can be taken for granted. A constant check should be maintained on even the best customers. Their very remoteness makes this all the more necessary, for local conditions in a given foreign market are constantly changing and with them the credit position of even the most trusted accounts. One large exporter of my acquaintance employs a local credit agency in each of his principal foreign markets who render him periodical reports on all the firms to whom he is extending credit. In addition to this he follows closely the monthly cable reports of the Department of Commerce covering the economic conditions in these markets so as to be prepared for any general depression that may affect his customers' credit. In this way he has succeeded in trimming his lines of credit on more than one occasion when conditions looked unfavorable. If the periodical credit reports have shown that any of his customers are not meeting local obligations promptly, he has refused open account or D/A shipments until

their affairs were put in order. As a result of this vigilance his losses have been held down to an extremely low figure.

Moral Responsibility vs. Financial Responsibility.—It is recognized among credit men, particularly in export credit circles, that financial responsibility is not so important a factor in gauging credit extension as is moral responsibility. Many good foreign accounts have been "nursed" through financial crises and have emerged with a strong attachment for the American exporter which has been of inestimable value. The best credit rating, therefore, is often a general trade opinion rather than a balance sheet. There are many ways of "sizing up" a prospective foreign customer even though he may be thousands of miles away. To the experienced manufacturer or exporter the tone and appearance of the foreign firm's correspondence is, in itself, often full of significance. This generally gives the initial impression which is generally so far reaching.

Tone of the Correspondence.—Next in importance is the spirit in which the negotiations are conducted. To the initiated it can often be sensed from the correspondence whether the prospect is a capable representative intent on pushing the line or whether he is more concerned with terms and the obtaining of special privileges and allowances. Often a foreign firm will write something like this:

> We think your line is too high priced for this market but as the quality is good we are willing to handle it if you will pay us 15% instead of 10% and grant us 90 days D/A terms,

sending us a good line of samples. We will also want 6% allowance on sales for advertising and a preliminary advertising campaign before the sales campaign will also be necessary. So and so's line is very strongly entrenched in this market; their price is lower and they are very active and advertise freely.

Such a letter shows a great many things to the initiated. The prospective agent is not "sold" on the line he is seeking; he, therefore, does not want to take any of the financial risks. He wants the manufacturer to make all the outlay for missionary and spade work, and he is afraid of competition. He is almost defeated before he starts.

A Reasonable Letter.—Contrast such a letter with one that reads in this fashion:

Your line is somewhat out of line with competitors' lines of practically the same quality in this market. We enclose samples and prices of such competitors' lines. It will be impossible for us to undertake to push your product unless you can bring your prices into line. We suggest also a 35% discount to dealers as this is what your competitors allow and it is important that you do the same. The commission you offer us as agents will prove satisfactory if you will adopt these suggestions and we decide to handle the line. Unless you do, however, we would not consider the line on any terms as we feel sure we would be wasting your time and ours. If you will meet our suggestions as above, we would be willing to have you draw on us D/P 60 days for all shipments and we would also take care of a preliminary advertising campaign although we should expect you to make an allowance for advertising based on sales as they materialized.

Such a letter shows that the prospective agent knows his business; that he is not a sample collec-

tor; that he is willing to take as many chances as the manufacturer; and that he is confident enough in his own ability, provided he is properly supported, to risk his own money in a preliminary advertising campaign. The alert credit manager would hardly need a very complete credit report on such a firm. One can almost sense reliability from the tone of their correspondence just as one can tell instinctively from the tone of the first letter that, even with all the assistance in the world, the results would be unsatisfactory.

Size of Commitment Governs Inquiry.—Of course, where large commitments are concerned reliance cannot be placed entirely upon such intangible things as the tone of correspondence. Under such circumstances the most painstaking inquiry would perhaps not be amiss and a thorough investigation through every existing agency should synthesize the best available information on the moral responsibility of the foreign prospect.

Size vs. Energy.—In making such an investigation, however, one should not be concerned so much with the size of the firm as to allow financial considerations to outweigh other things. A large selling organization abroad is not always the most efficient for certain lines and the mere fact that the organization is financially solid often leads to the serious mistake of choosing it in preference to smaller but more energetic representatives. Many an export manager is, moreover, unduly influenced by the credit department in making his selections with results that are

far from satisfying. In the case of smaller manufacturers where one executive performs both the function of export manager and credit man, this principle is often more keenly realized than where the functions are separate.

Sales Representatives.—The selection of a well-known, large, and financially responsible agent usually leads to safe exporting but the exporter may soon learn that his particular product is "lost in the shuffle" of a ponderous sale organization abroad unless it has outstanding qualities that warrant particular attention. One happy solution of this vexing problem has been the practice which has grown up of attaching sales representatives of the manufacturers to an organization of the type described, permitting him to push his particular product in a given market and leaving the financing of the resulting sales to the large organization. Even such an arrangement, which, of course, is only feasible where the volume of sales permits, sometimes leads to differences between the sales representative and the financing organization on the question of credit.

Attitude of the Banks.—The banks themselves are another adverse influence which often helps to retard sales on the plea of ultra-safety. In their desire to handle only first-class paper, especially "clean bills" or D/A drafts which can be advantageously discounted in the money markets, the banking institution will often refuse to accept, for discount, drafts drawn against the smaller and financially less responsible foreign accounts. Such an attitude on the

part of the banks is often highly deleterious to the foreign business of their customers and leads to unjust discrimination in the terms allowed the financially strong as compared with the smaller but more aggressive foreign agencies.

One Banker's Formula.—One successful banker recently gave me an interesting light on the more liberal attitude which he has adopted in accepting D/A drafts on a wider range of foreign indentors. His policy had led to such an expansion of his business that the growth of his foreign department had attracted universal attention.

"All questions of credit," he told me, "can be decided by a very simple formula. Foreign as well as domestic firms all fall into three categories. First, those whose very existence depends upon the maintenance of their credit. There are many of these among the long-established merchant houses throughout the world. Their credit is their stock in trade as their sales organizations have usually nothing especially to recommend them. These are undoubtedly the best credit risks. Second in standing are the firms which have no long-established credit reputation to preserve but whose activity and reputation as money makers as well as for honesty and integrity entitle them to almost as high a rating. It is in this second class that I have found the greatest possibilities for building up valuable connections abroad for my bank's customers. In the third class I place all that group of nondescript accounts who have neither reputation nor energy. To my mind

they are as poor risks as those whose honesty or integrity is questionable. I never recommend, if I know it, a firm who doesn't show a reasonably high turnover on capital, even though they may be honest, and I also do my share toward financing shipments on credit to those firms whom I can recommend."

Banks Should Counsel Exporter.—This leads naturally to the question of what part the banks should play in guiding the credit policy of their customers. Some of the larger institutions take the position that it is no concern of theirs if their customers make mistakes of judgment, so long as they remain solvent and able to reimburse them for all possible losses on their foreign commitments. Others take a more advanced view and undertake to maintain such complete files of credit information that serious mistakes are minimized. The latter attitude is fully appreciated by most manufacturers who readily admit that in matters of credit and finance they must rely largely upon the judgment of their banks.

Pooling Credit Information.—Keen competition among banks has been criticized as leading to a narrow policy in some instances, in respect to the use of their credit files. It is argued that credit information is not a proper medium to use, for example, to encourage customers to open new accounts. While a complete file of credit information is only accumulated with the expenditure of time and money, there is no reason, it is held, why it should not be made available on an equitable basis of compensation to a wider clientele than the bank's customers. Individ-

ual manufacturers and exporters have long realized the mutual advantages of cooperation in this respect. Just as no single individual can hope to keep to himself all the scientific knowledge of the world for his selfish uses and purposes, so no single institution, it is claimed, should presume to maintain complete and final sources of credit information. As a matter of fact some of the most jealously guarded and highly prized credit files would not suffer from an interchange of credit information with their "esteemed contemporaries."

Government Sales Information Reports.—The Department of Commerce in establishing its Commercial Intelligence Division has come closer to providing a central pool of reliable credit information on foreign importers and merchants available to all than any other single agency. Maintaining "sales information reports" on more than 400,000 foreign merchants, all of them compiled by members of the Foreign Commerce Service or by the American Consular Service abroad, there is available to the exporter an invaluable fund of reliable information which, while not coming strictly under the category of "credit reports," furnishes complete data on the size of the foreign firm, its present American connections, bank and commercial references supplied by the foreign buyer the volume of sales and capital, the number of traveling salesmen, the insurance carried, its local reputation, and similar items that constitute a fairly accurate picture of the firm's standing. The

chief difficulty with these Government reports is that some of them are a little old and there is not adequate staff either at home or abroad to keep them strictly up to date. Information on any firm's standing which is more than six months old is likely to be inaccurate in more than one respect.

Files of National Credit Men's Association.—Another excellent source of foreign credit information is the National Association of Credit Men's foreign files. These are compiled from the actual ledger experience of members and furnish a valuable check on the actual performance of the foreign customer as distinguished from his local reputation. Any exporter who has had any experience in the foreign field knows that a firm may enjoy the confidence of his local banks and be well regarded in a given foreign community and still not prove a satisfactory connection for many reasons. He may constantly file claims for the slightest reason and while accepting or paying his drafts promptly may be continually asking special favors and privileges which the manufacturer or exporter does not care to extend. The peculiarities of such a concern are brought out vividly in the Credit Men's reports.

Other Sources of Credit Information.—There are innumerable other sources of credit information, so many in fact that the Department of Commerce several years ago published a booklet—*Sources of Foreign Credit Information,* Trade Information Bulletin No. 292—of some fifty pages listing them all.

As a rule these are not available without charge to the ordinary manufacturer or exporter but are part of some special service such as that provided by the Commercial Museum in Philadelphia for a fixed fee. The regular credit agencies usually charge $3.00 for a foreign credit report when their service happens to cover the particular field required. These agencies, however, at present cover only a few of the more important countries of Europe together with Australia and near-by countries, like Canada and Mexico.

Credit Information Improving.—The sources of credit information available to the American manufacturer and exporter are, on the whole, improving and widening year by year. The experience of the individual firm in his dealings with his foreign customers is, in the last analysis, the basis of much of this information and as it becomes more widely disseminated it can have but one effect—facilitating the difficult problem of proper financing. The tenacity with which our European competitors have retained their hold on foreign markets even during the war and the difficult years following immediately thereafter is evidence of the superior knowledge of foreign credits which they had accumulated as a result of their many years of export activity before the world conflict. As our own experience in dealing with foreign merchants becomes wider and our credit files expand in volume and improve in quality, we shall be amply fortified against any attempt to cap-

ture markets which we have won through superior product or better service. We need have no fear that adequate facilities for financing our exports will not keep pace with our growing knowledge of, and experience in, foreign markets.

CHAPTER III

Market Characteristics and Export Financing

If credit information is an important factor in deciding upon the character of export financing, a careful determination of the ruling peculiarities of the market to which the goods are to be shipped is equally essential. Markets as entirely different, for example, as England and India, call for equally distinct types of financing. Such considerations are, it is true, always affected by the character of the product, but market characteristics frequently prevail and some products require radically different financing when they are to be shipped to China from that which could be used when they are destined for Holland.

Use of Trust Receipts in the Philippines.—In markets like the Philippines, where native importers have limited financial responsibility, the trust receipt is a document which serves an important function as an intermediary credit device in financing. Its use is not so common in Europe. A Filipino importer may explicitly designate in his shipping instructions that the draft should be presented through a certain bank. These instructions are frequently thought of little consequence by the American exporter unfamiliar with the Philippine market, yet to the Filipino im-

porter it is highly essential that they be complied with, for he may have arrangements with the designated bank and with no other, for accommodations involving the retirement of the draft at maturity and the release of the merchandise thereafter on trust receipt. The bank which he has designated will grant this accommodation because it is familiar with his business or holds some collateral, while the other banks may demand cash before the goods are released. The whole success of the transaction, therefore, depends upon the faithful performance by the American exporter of the seemingly inconsequential instructions of the Filipino buyer.

Documentary Payment Drafts Not Always Safe.— In India it makes all the difference in the world whether the consignee is located in a large commercial center like Bombay or Calcutta, or whether the shipment is destined for a small interior market like Amritsar. Drafts drawn against payment in Calcutta or Bombay are usually a safer risk in case of nonpayment because if the consignee fails to take up the draft, the bank or some other duly appointed agent of the exporter can easily dispose of the goods provided they are staple commodities. A draft refused after a shipment reaches Amritsar or Peshawar is not so simply handled. The market is small with a limited demand for the product in question. The dealers who would be in a position to handle a distress shipment may deliberately conspire to limit their bids for the goods to a third or half of their value. The freight to a wider market is usually the

determining factor. The bids will be so ingeniously arranged that it will be found that just a little less loss will be experienced if the goods are disposed of locally than if they are reshipped. As a result the naïve American exporter loses half the value of his shipment. The remedy is, of course, quite obvious. Cash in advance or letter of credit for a third or half of the shipment will soon put a damper on such practices.

In complying with consignees' instructions regarding the local bank through which the draft is to be drawn, some care should be exercised as to the standing of the local bank. Cases are on record of small banks being utilized for the financing of valuable shipments whose value may equal their entire capital. In such cases the temptation to indulge in sharp practice is very strong. The bank may be owned in part or in whole by a corrupt consignee who, after paying the draft to his local institution, may throw it into bankruptcy before remittance to the exporter's bank can be effected. Stranger things have happened, especially where the value of the shipment is great enough. The exporter's bank, of course, has recourse on him for the full amount of the draft. Bankruptcy insurance against a consignee is of no avail under such circumstances. His skirts are clear. The draft has been duly met. Unless an exporter's bank is willing to accept the drafts "without recourse," an accurate credit report on the designated consignee's bank is distinctly in order before the goods are shipped.

Common Causes of Refused Drafts Abroad.—More drafts are turned down and more loss is experienced through excessive shipments to overstocked markets than possibly for any other reason. A certain dealer may, through intelligent salesmanship, build up a limited consumer demand for a certain product. I have in mind such a demand created, say for cigarette lighters in Buenos Aires. Immediately orders for cigarette lighters from every dealer in Buenos Aires pour into American factories. The market is soon flooded and prices begin to be cut down to move slow stocks. As further shipments pour in and dealers see no hope of selling at a profit, drafts are refused and the banks begin to auction off stocks at half their value on instructions from manufacturers who prefer to get cost rather than spend more money in reshipment. A market may remain demoralized for many months as a result. A little prevision and intelligent inquiry could prevent such occurrences. Through the Department of Commerce, their own trade associations, or trade papers, manufacturers could inquire about market conditions in given markets and also watch export statistics, which are available through the Bureau of Foreign and Domestic Commerce on many products, for monthly indications of excessive shipments to any particular territory. Best of all, they could exercise judgment in accepting heavy orders when their share of the export market is fairly well known and there is no reason to believe that other manufacturers are inactive. In such cases a demand for half or two-thirds

cash in advance would serve to dampen the ardor of over-sanguine foreign dealers interested in making hay while a precariously fitful sun shines.

While on the subject of refused drafts, it might be well to mention two other causes for the turning down of drafts by foreign merchants. One of these is a failure to observe the foreign customer's instructions regarding shipping date. It frequently happens that delays occur in factory or elsewhere and that shipments are not made within the time specified in the order. In such cases the foreign importer will very likely take full advantage of the situation and refuse to pay or accept the draft. The other common cause of refused drafts is the practice on the part of some shippers of substituting an article at a higher price than the price at which the order was booked, or of raising the price quoted without notice. In either case it is well to get the foreign importer's consent to such alterations before making shipment.

Costly Experiments Borne by the Manufacturer.— The office of the Bureau of Foreign and Domestic Commerce in New York is constantly besieged with visiting merchants from abroad who wish to obtain sole agencies in their markets for new specialties recently introduced with success on the American market. In many cases highly satisfactory connections have been made, but in others the foreign market in question is so obviously unsuited for certain of the specialties adapted to a highly keyed American civilization that the foreign merchant is quite evidently not a bona fide importer thoroughly

conversant with his market. Many such foreign importers visit American factories each year, and if the factory is new to foreign marketing, may succeed in getting large free sample assortments and even trial shipments which will never eventuate into stable and continuous business. In some cases where the issue is frankly dubious and even the foreign merchant does not know whether the product is adapted to his market, he will place substantial orders on such terms of financing that the real risk of trying out a doubtful market is placed entirely on the American exporter. This is not exporting. It is speculation of the most flagrant type and a manufacturer once mulcted in a transaction of this kind may neglect other markets where the prospects are excellent because he has lost faith in all foreigners. Unless the sale of a new product in a foreign market has already been established, the American exporter should get the best information available on the character of that market before granting too lenient credit terms. If the information is not reassuring he should demand at least half cash with order.

Foreign Laws Add to Financing Difficulties.—It is always well to remember that the world is made up of sovereign states and that all laws are not alike by any means. It is impossible, for instance, to ship D/P to Colombia, as steamship companies there are not empowered to withhold goods from a consignee merely because he doesn't happen to have the "to order" bill of lading. If the manifest shows that he is the consignee he gets the goods whether he

has a bill of lading or not. This complicates matters and necessitates the appointment of responsible agents, such as certain reputable freight forwarders to whom shipments may be consigned pending the payment of drafts by the less well known or lower rated importers. This all costs money and must be taken into consideration in close bidding. Other countries have equally baffling laws about the notification to be given the consignee, the procedure in case of protested drafts, and other complicated legal phases of financing. These can all be studied to advantage by the exporter. The fact remains that every market is a separate problem in the sometimes highly complicated business of getting your money after the shipment has been made. All of which adds zest to a reply frequently received to a stock question often propounded to those seeking technical knowledge on export financing. Asked "Have you been exporting for a long time?"—the reply often received is, "Oh, yes, the New York commission house of so-and-so has been shipping my goods to quite a few foreign markets and paying me cash in New York!" Such manufacturers, of course, are avoiding many of the pitfalls and risks of export financing—for a consideration.

Export Commission Functions Chiefly Financial.—It is undoubtedly true that the stock in trade of the export commission house is a superior knowledge of market peculiarities especially as they affect export financing. For this reason they perform a useful function in relieving the inexperienced manufacturer

of all the burden of financing his shipments overseas. It is noteworthy, however, that only a few of them cover more than three or four markets effectively. None of them are world-wide in their activities. This is in itself an eloquent commentary on the importance of a thorough knowledge of market characteristics and its effect on export financing and selling. A survey of the more successful of these houses brings out this interesting point. One of the largest concentrates upon the West Coast of Latin America with headquarters in Chile. Another covers the British Empire. A third is fairly effective in Central America. In every instance the characteristics of the markets covered are similar.

This is all the more significant inasmuch as the export commission house is rapidly coming to fulfill more and more the function of a finance intermediary and less and less that of a sales organization. Few of them are interested in expanding their activities to new markets. Indeed, the tendency is toward greater concentration in their restricted territory. There is no doubt but what the financial influence is dominant in this transition. Expert knowledge of credits in a few markets enables these houses to perform effective service for a small number of active accounts in whose operations lies a substantial profit.

Manufacturers' Agents Act Simply as Salesmen.—In contrast to the operations of the export commission house which buys outright from the manufacturer and pays him on delivery of the goods at point of shipment in the United States, the manufac-

turers' agent who merely takes the order leaving the manufacturer to finance his own shipment has developed along broader and entirely different lines. These organizations maintain branches or agents throughout wider areas. The operations of one of the largest extend throughout the Far East from Tokyo to Cairo. Another covers Latin America fairly completely. A third has wide ramifications throughout Northern Europe. Such houses, moreover, are more extensive in the lines they represent.

The success of the manufacturers' agent lies in his salesmanship rather than in his ability to finance the shipments of those lines where salesmanship plays a rather less conspicuous part. As a matter of fact, the financing of shipments under the manufacturers' agency plan is left entirely to the manufacturer who draws his own drafts on the foreign consignee. The foreign branch or agent of the manufacturers' agent merely stands by in case of need and resells the shipment in the event that a D/P draft is not paid. The manufacturer assumes all the risk. Not carrying the financial burden or reselling the merchandise at a profit as does the export commission house but receiving his compensation merely from his commission on sales, the manufacturers' agent finds extensive representation of a large number of lines more profitable than the intensive policy pursued by the export commission house. As a result the lines handled by the export commission house are more in the nature of staples which lend themselves to rapid turnover on a volume basis and carry a low

commission. The lines handled by the manufacturers' agent are more in the nature of trade-marked articles or specialties which require considerable salesmanship and which are financed largely on a D/P basis with repeat orders not so frequent but carrying a more substantial commission.

Far East, Australia and South Africa.—The character of the market influences the manufacturer to a very marked extent in determining whether he shall do business through an export commission house or manufacturers' agent, or direct with the foreign importer. In Japan the Japanese importers have very nearly superseded the foreign commission houses. Being more intimately in touch with the ultimate consuming markets, they distribute the product more effectively. They can operate with lower overhead and consequently on lower commissions than their erstwhile foreign competitors, whom they have consequently almost entirely succeeded. Up-country distribution, however, is left largely to the Chinese middleman except in the case of a few commodities like petroleum products, tobacco, and sewing machines, which are distributed by organizations like the Standard Oil Company of New York, the British American Tobacco Company, and the Singer Sewing Machine Company, with wide-selling organizations throughout China. The effect of this difference in distribution is immediately seen in methods of financing. Most exports to Japan, even of specialties, are handled on a letter of credit or D/P basis. Chinese financing, on the other hand, being in the hands of

strong European or American merchant houses, is tending toward a D/A basis or even open account. Wherever exporting is done direct through Chinese connections, however, the tendency is toward a restriction of credit. In India and the Netherlands East Indies the same thing is true. Direct export to native firms is usually on a D/P or letter of credit basis, while business done through the strong British and Dutch merchant houses is often handled on a credit basis. That their financial standing has permitted such houses to retain a hold on these markets through such arrangements in the face of the lower overhead expense of their native competitors is readily conceded. Receiving credit from the manufacturer, they have been enabled in turn to extend credit to selected distributors, while their native competitors of lesser standing must demand cash.

Australian and New Zealand importers have long done business direct with American manufacturers on terms varying with their individual standing. In only a few instances have the American export commission houses or manufacturers' agents been able to compete with these importers in their own territory. In this respect these markets more nearly resemble the Japanese market than those of China, Malaya, or India. South Africa on the other hand is the preserve of the manufacturers' agent. Distribution over wide areas through the medium of the general store lends itself more to the individual attention and personal solicitation of the manufacturers' agent than can be accomplished through the medium of the established

importers, who are located only in the principal commercial centers. As a result D/P terms are the most widely used, as the credit rating of the small merchants who place orders direct with the manufacturers' agent is not high.

Latin-American Financing Peculiarities.—Latin-American countries offer an entirely different set of pictures. The local commission merchants in Santiago, with branches throughout Chile, are both strong financially and active commercially. They offer the best media of distribution for the average manufacturer. Few manufacturers' agents have the facilities to cover Chile effectively. The strong financial position of these commission merchants warrants extension of D/A terms ranging from 90 to 120 days. These terms are those set up by European competition and, unless they are complied with, much business is necessarily lost to Europe. Argentina and Brazil are in many respects like Chile in that the strong, local commission houses with branches in all the principal centers are able to give wide distribution and at the same time their credit standing warrants the extension of D/A terms which seems necessary to obtain the business.

To the north, Colombia and Venezuela present different problems. The necessity of having adequate and reliable representatives in Colombia to whom goods may be consigned has already been emphasized. The manufacturers' agent calling on the dealers in the five or six widely scattered centers seems the more satisfactory method of distribution for

Colombia, while in Venezuela the tendency of dealers and local wholesalers to deal directly with American manufacturers is rapidly spreading. Under such arrangements shipments D/P have been the rule for these markets, except in the few instances where credit extension was warranted by the individual standing of the consignee.

Cuban importers dominating the Caribbean area have long dealt direct with American manufacturers. Manufacturers' agents have also acted as successful intermediaries in these markets, especially where their representatives travel extensively and cover the islands effectively. The same is true of Central America. The proximity of these markets to the United States has greatly facilitated direct contact, however, and credit information being more easily obtainable, the tendency to form direct connections has been strong. Many manufacturers send their own salesmen to Mexico and Canada and solicit jobbers and even dealers direct. The financing of shipments under such circumstances is rendered less difficult because of the personal investigation of credits made possible by the direct contacts established by the manufacturer's own representative.

The Warrant System Widely Used in Great Britain.—Great Britain is a large importer of such American products as raw cotton, pork products, and other staples. It is highly desirable that stocks of these commodities be readily available in England. At the same time the importer does not wish to tie up liquid capital in stocks of goods which will not go into im-

mediate consumption. The warrant system, has, therefore, been devised. It differs from the system of trust receipts in vogue in China and elsewhere in that the importer's bank retains possession of the documents controlling title to the goods until the draft is paid. The goods, however, may remain in the custody of the British bank for some time, the importer paying interest on the amount of the invoice. When the importer is ready to take possession he pays the invoice and the warrant is issued by the bank entitling the importer to possession of the goods. There are no drafts drawn in the whole transaction. The warrant is the instrument through which title is passed from the holding bank to the consignee. Shipments may be made in bulk under this system but invoiced in small lots, and the British importer may therefore obtain possession of the small lots one at a time on paying the face value of each invoice.

Call Money and Operations of the London Bill Market.—London is the world's largest acceptance market and "clean bills" accepted by importers all over the world are sent to London for discount. The rate at which these bills are discounted depends upon the credit standing of the drawee and acceptor and that of the endorsers. Those of a definitely high standard are known as "fine trade bills" to distinguish them from "bank bills" drawn upon, or accepted by, banks, and are usually discounted at from ¾% to 1% higher rate. Bill brokers buy these bills from commercial houses or correspondents of foreign banks

and sell them to banks or finance houses who utilize funds borrowed in the short-term loan market. When money is tight anywhere in the world because it is being utilized for other purposes, such as for call loans on the New York Stock Exchange, the London discount rates on commercial bills tend to rise and the financing of foreign trade becomes more expensive. British banks claim that they have a real grievance against the New York speculators on this score.

European Financing Embraces All Forms.—Practically all forms of financing are used in exporting to Great Britain as well as to Continental European countries. Here the commodity influences the type of financing much more materially than does the character of the market. One reason for this is the closer connections which exist between American and European banking institutions and the better credit information generally available on individual European importers. Another is the diversified and highly developed economic character of the markets themselves, most European countries being well developed both agriculturally and industrially and demanding, therefore, a wide variety of products under varying financial arrangements.

Economic Resources Influence Financing.—Enough has been said about the characteristics of the different foreign markets and their effects on financing to draw some general conclusions. The so-called backward areas of the world, which incidentally are the great agricultural countries depending largely upon

the importation of their manufactured goods from abroad, are considered the poorest credit risks. A single crop failure may change the position of many of their merchants from affluence to bankruptcy. Such countries include in their number China, India, the Philippines, Dutch Indies, Malaysia, Brazil, Colombia, the Balkans, Cuba, and Russia. Other countries like Japan, Australia, New Zealand, South Africa, Argentina, Chile, Venezuela, and most of the countries of Western and Northern Europe are in a more stable economic position being possessed either of extensive mineral wealth or having industries which limit their dependence upon the vagaries of agriculture. Merchants in such countries are generally good credit risks as economic change is not so dependent upon the crops. The best risks, however, will be found in the great merchant countries like England, Holland, Belgium, and Germany whose credit is their most valuable asset because of the very character of the business in which they are engaged. Most merchants in these countries cannot afford to lose their reputation for honesty and fair dealing as they are constantly trading on it.

In thus touching upon the vital features of the credit position of the leading commercial countries, no specific mention has been made of the less important areas. It will be found that most of these are subsidiary to one or more of the markets touched upon and their credit is very largely influenced thereby. Thus French Indo-China, while thousands of miles from France, is through legal restrictions a

commercial tributary of the home country while Paraguay and Uruguay largely reflect conditions in the Argentine. Peru and Bolivia are commercially closely related to Chile while Ecuador is more intimately affiliated with Colombia. Thus both political and geographic considerations tie the less important countries to one or more of the greater markets already covered.

The wide differences in topography, climate, social conditions, customs, and habits found in widely separated areas of the globe have created economic conditions peculiar to each area. These in turn have developed certain methods of doing business which have directly affected the financing of imports. The successful exporter must be familiar with these conditions and customs if he expects to obtain reimbursement from his foreign customers with the greatest facility.

CHAPTER IV

How Commodities Affect Financing

Important as are the effects of different trade practices in various foreign markets upon the type of financing to be used, the nature of the commodity itself is often a much more potent factor. For purposes of easy classification commodities may be divided in three or four great groups, each of which requires radically different treatment.

"Hedging" as Practiced in Export Financing.—Staple raw materials like raw silk, raw cotton, wheat, copper, rubber, etc., whose prices are frequently fixed not by direct negotiation between the buyer or seller, but fluctuate with the supply and demand as registered on the great exchanges in the world centers, obviously cannot be financed in the same way as are machinery, automobiles, or manufactured specialties. Such raw materials are often bought and sold on the world's exchanges for future delivery, and sales abroad "at the market" at the time of delivery are protected by "hedging" operations here to prevent loss through fluctuation in price between the date of shipment and the date of delivery. Such operations consist of selling at a future price that will insure a profit in case the price falls before the goods are delivered. For example, cotton designed to sell at 20

cents a pound in Hamburg is shipped to a consignee under contract to be sold at the market price on date of delivery in Hamburg. At 20 cents a pound the exporter has a profit. He does not care to jeopardize that profit by any measure of speculation as to what the market price will be when the cotton reaches Hamburg. He, therefore, "hedges" by selling short a similar amount of cotton at 20 cents for future delivery approximating the arrival of his shipment and the consummation of the sale in Hamburg. If the market falls and he is forced to take less for his cotton on arrival, the "futures" he has sold short at 20 cents can be bought in at the lower price realized on his shipment and his loss thus equalized. If the market rises he takes the profit on his bona fide sale and applies it to the loss on his "future" sale.

Letter of Credit Relieves Financial Burden.—Exporters of such raw materials are frequently not in a position to carry the full financial burden represented by the value of a shipment for the period covered by its transportation to destination. The letter of credit has, therefore, been devised as the most acceptable mode of financing such shipments. It meets the needs of the exporter because it opens a credit on which he may draw for the full amount of the shipment, or a sufficiently large proportion to relieve him of the major burden of the financing.

There are many types and varieties of letters of credit but the principle remains the same in all cases. It provides for the opening of a credit and provides that title to the merchandise pass to a third party,

usually a bank, pending definite transfer of title on completion of sale. The use of letters of credit is by no means confined to raw materials handled in the manner described above. They are often used to assure payment to shippers of merchandise whose price is fixed in advance.

Most business in the world's staples is transacted by cable because of the daily or hourly price fluctuations. It is useful for a silk buyer in New York, therefore, to open a letter of credit in favor of his agent in Yokohama for some lump sum always available against purchases which can be made when the market seems most advantageous. As his agent ships silk and draws against this credit it can be automatically renewed for the amount of his draft so that the agent always has a certain specified sum at his command. Thus has developed the "revolving" letter of credit. It is usually so arranged that drafts against it are only honored upon presentation of bill of lading or other evidence of shipment, including the usual export documents.

All staples, of course, are not financed in the manner of the raw cotton shipments described above. It is usually only in products where standards of quality have not been definitely fixed by trade organizations of recognized international standing that foreign buyers refuse to accept the seller's word for the quality of his shipment and to pay him fully in advance. Where such standards have been fixed and the product can be sold on specifications recognized by responsible organizations of international stand-

ing, the full amount of the invoice is usually drawn for by the seller against the letter of credit. If the goods do not meet specifications, claims are made by the consignee and if not allowed by the shipper, the matter is referred to some method of arbitration provided for in the sales contract.

Changing Methods of Financing—"The Silk Express."—Trade practices, like all things human, are constantly subject to changing conditions. In the silk trade speed in delivery has always been an important consideration because of the vast amount of capital tied up, due to the high price of the commodity. The "silk express" speeding from Vancouver and Seattle to New York, sidetracking the crack transcontinental passenger trains, has long been one of the romantic features of humdrum commerce. Silk has been largely responsible for building up fast steamship service on the Yokohama-Seattle-Vancouver run and practically all of it has moved over this route rather than the slower route via Hawaii and San Francisco. Changing methods of handling the product now promise to alter all this. Japanese firms maintaining offices and warehouses in New York and owning the silk from its earliest stages of reeling in Japanese villages until its delivery to the American silk factory find it cheaper to maintain a steady flow of the commodity to their American warehouses than to incur the expense of speedy transportation. The key to this change is largely a matter of financing. When an American silk factory bought silk in Yokohama, a large amount of its funds were tied up by letters

of credit, and as interest had to be paid or calculated on these funds the speediest shipment was most economical. Now the Japanese exporter advances money to the reelers long before the silk reaches the cocoon stage. He virtually owns the silk from the moment of its production. The interest on these advances and on the finished product until it reaches the American factory is all figured into the sale price. As a result silk shipments are moving sometimes by way of Suez to New York rather than via the more expensive trans-Pacific transcontinental route. The net cost to the consumer may be the same but the whole method of assessing it is changed. The financing is also radically different, as a whole transaction is handled by inter-departmental credits and debits within a single international organization.

Time Payments and Installment Selling Abroad.—It is through the desire to "pay as you ride" which has rapidly spread from the United States to the remote corners of the globe that the most pronounced changes in financing the exportation of motor cars have come about. As these changes have involved a whole array of similar American products, now purchasable on time payments abroad, such as refrigerators, radios, phonographs, and similar articles, it is interesting to observe how methods of financing such products destined for sale abroad on the partial-payment plan have been successfully devised. For years the Singer Sewing Machine Company had pioneered in this field and had built up a remarkable world-wide sales organization on the principle of

"pay as you sew." It was the demand for American automobiles abroad, however, which has popularized the plan.

Practically speaking, most of the commodities which are sold on the installment plan in the domestic market can be financed on a time-payment plan abroad. The nature of these commodities is usually of such a character as to (1) permit ready repossession in case of default; (2) remain in use long enough to cover at least the period of payment; and (3) be considered in the luxury or semi-luxury class and valuable enough not to be purchasable by the ordinary individual without considerable previous saving. Undoubtedly the adoption of suitable facilities for the financing of such exports so as to permit the foreign customer to enjoy the use of them while he is paying for them has accounted for much of the increase in the value of American exports in the past few years.

Under this plan, which will be described in detail later on, the manufacturer or exporter seldom has relations with the customer. It is rather with the dealer that arrangements are made by foreign finance companies who act as intermediaries, relieving the manufacturer of the financial burden which is no proper part of production or sale. Such financing, it is true, is much more expensive than ordinary export financing where money is utilized for periods ranging from 3 to 6 months at the longest. The foreign customer pays for the accommodation accorded him just as the domestic customer pays more for a given

article on time payment than for cash. It is the contention, however, that such sales do not tend to reduce cash purchases of such goods abroad but reach an entirely new class—a class that under ordinary circumstances would never at any given time possess enough cash to purchase these luxuries, yet who desire them and will obligate themselves to pay for them when they can be had on a partial-payment plan. It is this new class of purchasers who, it is contended, furnish the added purchasing power that accounts for much of our present-day prosperity.

One important effect of such changing methods of merchandising abroad is to augment the total volume of American capital employed abroad. As the value of American products, sold on credit, increases, they represent a larger and larger American stake in the welfare and prosperity of foreign peoples. The time may not be far distant when unfavorable economic conditions in the smallest markets may spell jeopardy for a considerable volume of American property still being paid for by our foreign customers in that market.

Finance Subsidiaries and Their Relation to the Banks.—The changes in the type of financing handled by American financial institutions is equally far-reaching. Just as the utilization of surplus corporation funds in the call-loan market has deprived the banks of an important source of profit, so the direct financing of foreign shipments by finance subsidiaries of large corporations like the General Motors Acceptance Corporation tends to divert a large volume of

direct foreign financing from acceptance banks. As the time-payment plan becomes more popular abroad, therefore, we may expect a greater and greater volume of such export financing to be handled directly by large corporate units through their acceptance subsidiaries, which in turn will, in many cases, re-finance themselves through the regular banking channels, leaving to the banks the direct financing of the smaller and more casual exporter.

A counteracting influence to this trend is the growing practice on the part of these corporations of assembling, if not wholly manufacturing abroad, many of the products, notably automobiles and sewing machines, which are sold very largely on the time-payment plan. As this practice grows and the volume of sales in a given market increases enough to warrant the investment in capital items such as buildings, machinery, etc., the future of our direct exports of such items appears to have natural limitations. This is, perhaps, more true of bulky items where ocean freight is heavy than of the less bulky products such as radio and phonograph parts and small motors for refrigeration, etc. It will probably be a long time before the advantages enjoyed in the United States from mass production of articles of the latter description can be overcome by the single item of ocean freight, plus duty. While, therefore, American capital may continue to be sent abroad for the construction of assembly plants and for the manufacture of such things as automobile bodies and phonograph cabinets, the exportation of American chassis, and

phonograph motors will tend to increase. The financing of such shipments from the mother plant to the foreign assembly plant will again become a mere matter of inter-office bookkeeping rather than bona fide transactions involving the recognized functions of independent financial institutions.

Factors Affecting Long-Term Financing.—Somewhat analogous to the trend in exporting under the partial-payment plan, and undoubtedly influenced by it, is the perfection of facilities for long-term financing of machinery, railroad equipment, and other capital items intended not for individual use but for the further production or transportation of goods abroad. Here again ordinary American acceptance banking methods are not designed to fill the requirements of the American manufacturer who feels that he should not be called upon to carry his foreign customer for a period of two or three years. The result has been the development of foreign finance companies similar in structure and operation to those financing partial-payment exports. The growth of this type of export financing, however, has not been as spectacular as that discussed above, because of the fact that while we have enjoyed almost a monopoly of the world's purchases of motor cars, for example, our percentage of the world's machinery trade is relatively small. Moreover, although our capital investments abroad have grown at the rate of over a billion dollars a year since 1924, a great proportion of this has been for governments, states, and municipalities. Comparatively little of

it has represented investment in industrial plants abroad which would carry with it the purchase of American machinery. Only a small proportion of our foreign loans have "tied in" the purchase of American equipment and while, no doubt, they have been more acceptable to the foreign borrower under such circumstances and just as profitable to the American underwriter, they have not helped the American machinery manufacturer to any marked extent.

Such financing of American machinery shipments abroad as has been done, therefore, has had to be handled either by the manufacturer himself or through export finance corporations. A real issue exists between machinery manufacturers and bankers on this point. The manufacturer contends that the long-term financing of his shipments abroad is not the proper function of the manufacturer. The burden should be borne by the banks, always, of course, for a consideration. The banker, on the other hand, points out that under the Federal Reserve Act an acceptance, to be eligible for re-discount, cannot have a longer tenor than six months.

Under these circumstances intermediary finance corporations have sprung up to fill the legitimate demands of manufacturers who must grant their customers one or two years' accommodation. By retaining a lien on the machinery or equipment, where the laws of the country permit, these corporations give not only the manufacturers the use of his money but his customer the use of the equipment. They per-

form, therefore, a very useful function in export financing.

"Consumers' Goods" in Export Financing.—The last great group of commodities which, because of their character, affect the methods used in financing their shipment abroad, are those which for want of a better term are commonly called "specialties." They include, however, all those products which, because of their very nature, enter rapidly and readily into consumption and are either consumed entirely or are easily rendered useless for resale purposes. Such commodities probably constitute a quarter of our entire exports and because of the characteristics described above, require rapid turnover and expeditious financing. They are usually composed of units which can be easily carried away and it is, therefore, impracticable to place a lien upon them. Likewise they are commonly articles of everyday use which could not readily be identified for purposes of repossession. It becomes necessary, therefore, to arrange for their payment *before they enter into consumption abroad;* that is, before they leave the custody of the foreign importer on whose credit they have been shipped. This is by no means a fixed or readily determinable period. Time may be required for their trans-shipment by the importer to out-ports or up country to smaller markets before he can collect and consequently before he can conveniently pay. If an importer's credit is good, therefore, a hard and fast rule of documents against payment within 60 or 90 days of the date of the draft

is sometimes unreasonable when it may require at least 60 days for him to trans-ship the goods and receive his money. A safe rule, therefore, is to grant such terms, consistent with the general credit of the foreign customers, as will allow him to dispose of the goods and receive his money before he in turn is required to pay the draft.

Documents Drawn Against Payment and Acceptance.—There are two general methods employed in financing shipments of goods of this character: documents against payment and documents against acceptance. These are known as D/P and D/A terms. The difference lies in who is to have possession of the goods pending the meeting of the drafts. A D/P draft retains possession of the goods in the hands of the shippers until the draft is paid. A D/A draft transfers possession to the consignee on his written acceptance or promise to pay. The nature of the commodity is often a determining factor in the question of which type of draft should be drawn. Goods which must be sold to small retailers by the foreign importer in consequently small quantities, such as piece goods, proprietary medicines, toothpastes, shoe polish, etc., are often asked to be drawn for D/A as possession of the large cases is necessary to break them up and distribute them before payment can be obtained. On the other hand, the importer's credit must always warrant such accommodation. Goods sold in larger units, such as cases of canned goods which can be readily identified and distributed to the importer's customers from the customs warehouse or

for which warehouse receipts can be obtained and exchanged with the customers for cash, can usually be handled on a D/P basis without great inconvenience to the importer.

In the Indian market where the credit of individual bazaar merchants does not warrant D/A shipments, piece goods are sometimes shipped to several consignees in a single case and a single draft, drawn on one merchant—D/P, is accompanied by individual invoices on each of the others so that he may collect from them on delivery of their particular bolts of cotton goods. The same practice is in use for shipments of files and similar small hardware items.

Numerous Variations from Typical Groups.—The nature of the commodity has, therefore, a decided effect upon the type of financing. The four great groups of representative products which have been dealt with above are subject to infinite subdivision and in each case slight variations in the financial methods employed may be introduced. Nor is it true that the methods outlined are invariably employed for the commodities in question. Just as shipments of wheat have undoubtedly been made with drafts drawn against payment, so innumerable motor car shipments have gone across the sea financed by means of letters of credit. Just as in domestic trade so in our shipments abroad individual transactions and the relationship between the two parties to a contract have the effect of changing established practice.

The four methods of financing outlined, however, together with another—shipments made on open account and settled at specified dates as agreed upon—constitute the four types of financing most generally utilized by American exporters in their overseas transactions. The distinctions set up by the widely different nature of commodities have, moreover, had the effect of dividing the business of exporting into several groups or types. It is rare that firms engaged in exporting raw materials or foodstuffs enter the machinery or motor car field, just as machinery exporters, because of the particular type of service they are required to render, seldom engage extensively in the export of specialties. The set-up of both their domestic and foreign organizations has become fixed through long practice along the lines most economical to operate, and the question of financing has been a potent factor in fixing these types.

CHAPTER V

Staples and the Letter of Credit

Ordinarily bills drawn against a foreign importer are not bought outright by the exporter's bank. They are generally discounted for a certain percentage of their face value (usually 75%) and the proceeds credited to the exporter's account with the understanding that in the event that the bills are not honored by the drawee the discounting bank will have full recourse against the drawer. This is true whether the bills are drawn against acceptance or against payment. In other instances they are merely deposited by the exporter with his own bank for collection, and his account is not credited with the proceeds until the bills have been forwarded to the correspondent bank abroad and either paid or accepted by the drawee and the funds have been remitted to the bank with whom they were deposited for collection.

Why Letters of Credit are Necessary.—In financing the export of raw materials, however, the fluctuation in price, the volume of the shipment, and the high value of each transaction handled have necessitated the development of a more facile method of financing such commodities. Cotton, for example, may be sold abroad in 1,000-bale lots, shipments to be made at

the rate of 200 bales per month over a period of 5 months. This means that the exporter may ship 200 bales of cotton any time between the first and the last of each of the months specified. As large sums of money are involved in each of these shipments and the rate of the exporter's commission is usually very low, never averaging over 2%, and as cotton prices fluctuate hourly it does not pay him to tie up his capital. The custom has therefore grown up of either having the shipment financed by a banker's acceptance, which will be explained in a succeeding chapter, or of having the importer abroad arrange with his banker for a letter of credit. This was formerly done by means of a letter written by the banker to the importer stating the conditions and terms under which the banker would accept bills of exchange drawn on the importer by the exporter. The form and contents of these letters have gradually become uniform and have evolved into standard "letters of credit."

Conditions Upon Which Credits Are Created.—There are naturally many conditions that the banker may name in these letters of credit, which, if not observed, would not leave him obligated to carry out his part of the agreement to pay or accept the drafts when presented. The most important include the duration of the credit; the currency in which drafts are to be drawn; the tenor of bill that may be drawn against it; whether drafts shall be against payment or acceptance; the documents required and disposition of

same; the total amount for which the bills may be drawn; or the highest amount that may be drawn

IRVING TRUST COMPANY
FOREIGN OFFICE
WOOLWORTH BUILDING, NEW YORK

REVOCABLE
Advice No.

Dated New York, October 31, 1929.

SPECIMEN

Expiring in New York December 31, 1929

Amount $1,000.00

Mr. John J. Jones,
New York City,
New York.

Dear Sir:

We are informed by Midland Bank Ltd., London - - - - - - - - - - -

that you will draw on us at sight -
for account of Richard Roe -
to the extent of ONE THOUSAND DOLLARS - - - - - - - - - - - - - - - - - -

evidencing shipment of apples to London.

The following documents (complete sets unless otherwise stated) must be presented:

Ocean Bills of Lading issued to order, endorsed in blank.

Invoice

Insurance certificate issued by Insurance Companies covering marine risk.
Unless "on board" bills of lading are presented, insurance must cover steamer named in bills of lading and/or following steamer.

All documents are to be surrendered to us upon payment.

Drafts must clearly specify the number of this advice, and be presented at this Company on or before December 31, 1929.

This advice, which is revocable at any time without notice, is for your guidance only in preparing documents and conveys no engagement or obligation on our part or on the part of

Each of the provisions on the back hereof, except so far as otherwise expressly stated, is incorporated as part of this advice.

Any amendment of the terms hereof must be in writing over an authorized signature of this Company.

Yours very truly,

IRVING TRUST COMPANY

If you are unable to comply with the terms of the Advice, please communicate with us and/or your customer promptly with a view to having the conditions changed.

By:
G. J. Messemer.
Specimen Signature

REVOCABLE LETTER OF CREDIT

during any single period. Some letters of credit specify that certificates of inspection must be attached

showing the grade or quality of the product against which the bills may be drawn. The letter of credit

SPECIMEN

IRVING TRUST COMPANY

MEMBER FEDERAL RESERVE SYSTEM

FOREIGN OFFICE
WOOLWORTH BUILDING

CABLE ADDRESS "IRVINGBANK, NEW YORK"

NEW YORK
Export Credit Dep't.

October 31st 1929.

REVOCABLE
ADVICE TO PURCHASE NO. 10000/100

Mr. John J. Jones,
New York City,
New York.

Dear Sir:

We have been requested by Ho Hong Bank Ltd., Shanghai-
- -
to purchase your 90 days sight documentary drafts, with recourse
to you, drawn on Richard Roe- - - - - - - - - - - - - - - - - -
to the order of Ho Hong Bank Ltd - - - - - - - - - - - - - - - -
to the extent of ONE THOUSAND DOLLARS ($1,000) - - - - - - - -
covering shipment of merchandise to Shanghai.

The drafts are to be drawn in duplicate and must be accompanied by complete sets of documents as follows:

Through Bills of Lading via the Pacific Coast or Ocean Bills of Lading, issued to order of Ho Hong Bank Ltd., Shanghai.
Invoice

Insurance certificate issued by Insurance Companies covering marine risk.
Unless "on board" Bills of Lading are presented, insurance must cover steamer named in Bills of Lading "and/or following steamer".

All documents are to be surrendered to us upon payment of the face value of your respective drafts.

The drafts must be clearly marked: "Drawn under authorization of the Ho Hong Bank Limited, Shanghai- - - - - - - - - - - - - -
No. 100 dated October 31,1929 and bear the clause: "Payable with interest added at the rate of % per annum from date of draft until approximate date of arrival of cover in New York". "Documents against payment."

AUTHORITY TO PURCHASE

may also contain the provision that it is revocable by the drawee any time before the bills are nego-

tiated by the drawer. In this case it is a "revocable" letter of credit. It may, however, stipulate that it

-2-

IRVING TRUST COMPANY

October 31st 1929.

Although this Advice is intended to remain in force until December 31,1929 is subject to cancellation and/or modification at any time without notice and conveys no engagement or obligation on the part of this institution. It is not to be considered a "Bank Credit" and does not relieve you from the liability attaching to a drawer of a bill of Exchange

Further, it is a condition of this Advice that the Ho Hong Bank Ltd., London- - - -

Procedure Under Letter of Credit.—The foreign bank instructs its correspondent bank in the city in which the exporter is located to issue a letter of credit. The latter sends a notice to the exporter outlining the terms of the credit that has been established in his favor. If the local bank in addition gives its undertaking that drafts drawn in accordance with the credits will be duly honored, it becomes a "confirmed" credit. As local banks charge a commission for such service it is usually avoided when possible. When the shipment is ready to go forward the exporter takes his draft drawn in triplicate either against payment or acceptance with all the documents, including ocean bill of lading, marine insurance policy, certified invoice, and, wherever necessary, certificate of origin or consular invoice, to the correspondent bank and realizes on it. Whether he obtains the full face value or not depends upon his contract of sale. An "Authority to Purchase" is a form of revocable letter of credit used in the Orient. In any event he is assured through the irrevocable letter of credit of the ultimate "honoring" of his bill. If he is to draw 90 days sight D/A, or 90 days after the drawee sees the draft obtaining the document only against acceptance, the draft is discounted for an additional length of time calculated as necessary to elapse before the document reaches the drawee and permits his acceptance after which it is to run for 90 days.

Interest Borne by Drawee Unless Otherwise Stipulated.—Interest on the face value of the draft for the

time elapsed between the discount of the draft and the return of the proceeds from abroad, is not deducted from the net proceeds realized by the exporter unless the sales contract stipulates that interest is to be paid by the exporter. Such a stipulation is generally included in the original quotation. Thus, if the exporter wishes to indicate that he will bear the interest he will quote c. i. f. and i., which means that his price includes cost, insurance, freight, and interest on the face value of the drafts during the time that they are in process of collection by the discounting bank. Unless it is specifically stipulated otherwise, interest is borne by the drawee.

Typical Advantages to Exporter.—The letter of credit system offers many advantages to the exporter of staples or raw materials. Usually the exporter of such commodities is not the original owner but merely a factor, or dealer. Raw cotton, for example, is placed in a warehouse by the grower in one of the Southern states. He obtains warehouse receipts which stipulate its grade, weight, and condition. These are negotiable. He takes them to his bank and borrows on them or sells them outright to a cotton factor, say in Memphis or Atlanta. If he borrows on them without selling them it is because he is looking for a higher price than is being offered for cotton at the moment. The bank may advance him 85% of the value of the hedged cotton. If the price falls below the 15% margin the bank usually retains the right to liquidate his holdings to protect its own interests. But in all cases they call upon the firm for

extra margin before selling them out. At any rate the ownership of the cotton, as evidenced by the posses-

IRVING TRUST COMPANY
FOREIGN OFFICE
WOOLWORTH BUILDING, NEW YORK

Irrevocable Export Credit No. 10000/100 Dated New York, October 31st 1929.

Expiring in New York, December 31, 1929.

Mr. John J. Jones, SPECIMEN Amount $1,000.00
New York City,
New York.

Dear Sir:

At the request of Midland Bank Ltd., London- - - - - - - - - - - - - -

we hereby authorize you to draw on us at sight- - - - - - - - - - - - - - - - - -
for account of Richard Roe- -
to the extent of ONE THOUSAND DOLLARS- - - - - - - - - - - - - - - - - - - -
evidencing shipment of apples to London.

The following documents (complete sets unless otherwise stated) must accompany your drafts:

Ocean Bills of Lading issued to order, endofsed in blank.

Invoice
Insurance: certificate issued by Insurance Companies covering marine risk. Unless "on board" bills of lading are presented, insurance must cover steamer named in bills of lading and/or following steamer.

Drafts must clearly specify the number of this Credit, and be presented at this Company on or before December 31st 1929.

Each of the provisions on the back hereof, except so far as otherwise expressly stated, is incorporated as part of this Credit.

Any amendment of the terms of the Credit must be in writing over an authorized signature of this Company.

We engage with the beneficiary that all drafts drawn under and in compliance with the terms of this Credit will be duly honored on delivery of the documents as specified.

Yours very truly,
IRVING TRUST COMPANY
By:
G. J. Messemer.
Specimen Signature

If you are unable to comply with the terms of the Credit, please communicate with us and/or your customer promptly with a view to having the conditions changed.

J/G
390/70

IRREVOCABLE LETTER OF CREDIT

sion of the warehouse receipts, usually passes to a cotton factor or dealer. The factor or dealer may be buying only for domestic account, or only for export

account or both. When the cotton is sold to a foreign importer, it is sold at a price which has been fixed by negotiation between buyers and sellers. The exporter may not have the actual cotton in his warehouse when he sells. He may have bought it either "spot," or for delivery within some specified period. Within the agreed time the seller must deliver to the buyer negotiable documents conveying title to the cotton. If the cotton is sold abroad for "early October shipment," this means usually that it must be aboard steamer within the first half of October. In this event the fact that a credit has been opened is cabled by the importer's bank abroad and the exporter presents his drafts and receives payment as already described from the correspondent bank in New York.

Price Fluctuation and the Irrevocable Credit.—It is because of the fact that the price of cotton, in common with all other staple raw materials, is constantly fluctuating in accordance with continually changing supply and demand as registered by the prices bid and asked on the exchanges, that the exporter must be assured that his drafts drawn at the price agreed upon will be honored, before he can commit himself, without speculating, to deliver the cotton or warehouse receipts. It is principally for this reason that he demands a confirmed irrevocable credit and bases his sale on such an arrangement.

British Financing of Imported Staples.—The method by which the British importer finances the shipment is described in Trade Information Bulletin No. 636 of the Department of Commerce:

Within the United Kingdom the financing of the cotton industry, for example, begins with the banks' assistance to the cotton broker. He may be the importer of raw cotton or he may desire to buy raw cotton on the Liverpool Cotton Exchange on behalf of a cotton spinner. The loan or advance from his banker is not made, as is so frequently the case in the United States, on the security of a promissory note; in most cases the loan takes the form of an overdraft by the customer on the bank.

The cotton broker goes to his banker with the statement that he has an order from a spinning concern for, say 100 bales of American middling cotton. He arranges with his banker for an overdraft within certain definite limits both as to the amount and as to the probable period the credit is to run. His security may be stocks and shares, commodities, personal guaranties, or, more often, his own unsecured credit. Credit on personal character is still commonly given by the British banks.

* * *

With the money thus secured from the bank the broker buys the 100 bales of cotton and notifies the cotton spinner that they are ready for delivery. The cotton spinner in turn goes to his bank for an advance in the form of a loan or overdraft to enable him to pay the broker for the raw cotton. With the credit which he receives he pays the broker, who then repays his own overdraft at the bank. The broker's overdraft may run for only a day or two if he buys spot cotton on the Liverpool Exchange. The spinner, however, needs money not only to finance the purchase of his raw materials but also to pay wages during the spinning of the cotton. Therefore his overdraft must, as a rule, be for a larger amount and for a longer period than the broker's. Similarly the weaver, the bleacher, dyer, and packer must secure bank credit during the processing of the cotton.

Economies of the Letter of Credit.—From the foreign importer's point of view the letter of credit is a most satisfactory mode of finance for he can arrange the credit and place it at the disposal of the exporter without tying up any of his own funds. He does not begin to pay interest on the amount arranged for until the shipment is actually aboard steamer and the drafts are paid by the discounting bank. The letter of credit itself is arranged for only a small commission.

Financing Through Foreign Branches.—Where the American cotton exporter maintains London or Liverpool offices and ships the raw cotton to the order of his own foreign office there is, of course, no financial transaction except a debit and credit on the books of the firm. For reasons of taxation, however, many organizations formerly operating in this manner have now formed separate British companies who, while working closely with the American organizations, are entirely separate financial entities. In this event the export transactions are handled under letter of credit exactly as described above.

Reason for Consignments and "Hedging."—We have already described the method of consigning goods to be sold "at the market" abroad and the part that "hedging" plays in these transactions. This method is often used when the market price is fluctuating sharply and neither exporter or importer cares to take the risk of a bona fide sale, with the intervening period consumed by the movement of the goods likely to cause a loss to one side or the other. Foreign

spinners and cotton brokers, moreover, do not care to make long commitments ahead for the purchase of their raw material requirements as their product is usually sold at a fixed price before they begin manufacturing it and they must buy their raw materials immediately "at the market" to avoid speculation. It is for this reason that the exporter can dispose of his product more easily if it is sent to the market abroad before it is definitely sold. The letter of credit affords an ideal method of financing in such cases.

Wheat Financing by Letter of Credit.—While the financing of raw cotton offers a typical example of the use of the letter of credit, the exporting of wheat, meat, copper, and a number of export commodities are all financed in general by this method. Wheat, brought to the huge elevators in Chicago and other points on the Great Lakes, soon loses its individual identity and becomes so many tons of wheat subject to the order of the holders of the receipts issued by the grain elevators. This is bought and sold at the "wheat pit" in Chicago and certain wheat, becoming the property of an exporter, may be sold against letters of credit issued by the foreign bank. Wheat is shipped in bulk and a single export transaction covers a shipload of several thousand tons, which may move by water from Chicago or Buffalo, through the Welland Canal and St. Lawrence River to Europe. The shipment may be financed by drafts or remain at the disposition of the exporter who consigns it to a foreign agent and disposes of it when the vessel reaches a foreign destination. In either case the

banks are asked to carry much of the financial burden and retain title to the grain during most of its journey from the point of shipment to destination. Here again the letter of credit plays the major rôle, enabling the exporter to realize on his shipment as soon as it is loaded in the hold of a vessel and becomes a single entity readily identified.

Inland Financing of Bulk Commodities.—Commodities exported in bulk like wheat are, therefore, not as subject to the same facility in financing all the way from producer to consumer as are commodities like raw cotton, where the bales are readily identifiable and can, therefore, be specifically covered by warehouse receipts. A carload of wheat sold to a broker in Des Moines can be identified by the car number and resold several times before it reaches a grain elevator by transferring the bill of lading if shipped "order notify." Once it has been transferred to a grain elevator it loses its identity and is thereafter referred to as so many tons of wheat. The owner of the wheat when it enters the grain elevator can no longer sell it by transferring an order notify bill of lading. The financial chain is thus usually broken and the instruments drawn against the wheat while in transit by rail must ordinarily be liquidated and new instruments based on grain elevator receipts freshly negotiated. This is sometimes accomplished, however, merely by sending the elevator receipts to the bank and receiving in return the no longer valid bills of lading. Finally, when the grain is loaded on ship the grain elevator receipts can be exchanged for

an ocean bill of lading, which will represent, perhaps, a number of elevator receipts for several hundred tons each. It is thus quite possible to sell a shipload of wheat in Iowa and finance it straight through to Europe, provided it could be moved quickly enough to obviate long and expensive storage in grain elevators while awaiting the arrival of some hundred carloads or more to fill completely the hold of the vessel. The fact that empty cars are difficult to obtain during the harvest season makes such procedure impractical, however. Coupled with this is the obvious fact that few wheat farmers have the facilities or connections for selling a shipload of wheat to a European consignee. The brokers, elevator companies, and exporters have been found essential links in the export chain and the method of financing has been affected accordingly. While, therefore, inland financing of export shipments of raw cotton as already described can be easily effected, wheat export financing necessarily begins at point of ocean shipment.

Letter of Credit as a Safeguard.—While raw materials, because of their fluctuating price, are best adapted to export financing by means of the letter of credit, a great many other staple commodities are financed in the same way for a variety of other reasons. This is particularly true in the case of the export of those commodities in which standards of quality have been set up and which are sold on those standards rather than by particular brand or trade name. In other words when the foreign importer is reasonably assured of what he is buying he has no

hesitancy, as a rule, in setting up a credit against which the exporter may draw.

Financing Semi-Manufactured Goods.—This is true of such products as rosin, turpentine, cotton seed oil and cake, petroleum products, lumber, which while not designed in their export form for the ultimate consumer are partly manufactured and are subject to further processes before going into ultimate consumption. Most of these products are financed by means of straight drafts against letter of credit. Few of them are shipped abroad on consignment as the prices are more stable than in the case of the great raw materials which are widely produced and whose prices are constantly affected by conditions in a great many countries.

Foodstuffs and the Letter of Credit.—Another group of staples ordinarily financed by means of letter of credit is foodstuffs. Hams, bacon, pork, lard, frozen beef, fresh fruits, sardines, and canned goods, all of which usually enter into consumption fairly rapidly and can be turned over immediately by the foreign importer, can usually be financed by means of a letter of credit. In other words, where the importer abroad has himself a fairly active market for a given commodity and the turnover is rapid, he has little difficulty in persuading his bank to open the necessary credit to finance his legitimate needs. If other than first class foreign importers of those lines do not offer letters of credit but want ordinary financing on perhaps D/A terms, the chances are that their channels of distribution are not established and they

are merely looking for some American exporter to "hold the bag" for them. When other than a first-class foreign importer cannot offer a letter of credit covering a commodity and in a market where such financing is usually utilized, the matter will bear due investigation before other terms are accepted.

Letter of Credit Test of Financial Responsibility.—Of course, as we have already intimated, the letter of credit is by no means confined in its use to staples and raw materials. In other commodities it is a good test of the financial responsibility of the importer and the bona fide character of his operations. Few banks will refuse a reputable concern, especially in Europe, letter of credit accommodation, basing it on whatever collateral he may be able to put up, provided he can assure them that he has a definite outlet for the goods in question and that the credit is not likely to become "frozen." In insisting on letters of credit, therefore, the American exporter is working no hardship on the foreign firm provided they have a bona fide outlet for the goods. There are, however, markets and commodities where insistence on letter of credit financing would be useless. These will be explained in succeeding chapters.

Varied Uses of Irrevocable Credits.—As an instrument for guaranteeing payment under any conditions and in the case of any commodities, the irrevocable letter of credit is ideal. It at once establishes with the exporter the standing of the importer with his own bank and is the most convenient method of providing "cash with order." Business relations built

up on a letter-of-credit basis at the start have often developed into D/P shipments and then into D/A shipments ending up after some years of satisfactory dealings with open account. The letter of credit is, therefore, the first step in export financing and serves admirably as an initial guarantee where the credit of the foreign importer is unknown. It has become standard in the raw material and staple commodity field principally because price fluctuations provide too great an element of risk, on the one hand and staples move too rapidly into consumption to require even the customary D/P accommodation, on the other. It is a practical means of financing consignments and permits the financial burden of consignments to be borne by the importer where it properly belongs, while the exporter by means of "hedging" may absolve himself of much of the risk of consigning goods on a fluctuating price basis. It permits the shipments of goods with drafts against payment or acceptance and at the same time assures the exporter that these drafts will be met. In this way it becomes a medium of accommodation to the importer and a guarantee of payment to the exporter. Finally the "revolving" letter of credit can be utilized as a means of continuous financing where the importer wishes to employ an agent abroad to buy on order "at the market" or by taking advantage of low prices to fill buying orders at certain prices fixed in advance. The variations in its uses are numerous and all of them tend toward safer exporting.

CHAPTER VI

Time Payments on Producers' Goods

The principal commodities now financed abroad on the time-payment plan are motor vehicles, electric refrigerators, industrial equipment, and machinery. A survey of the leading domestic accounts handled by one large finance company indicates that it is only a question of time before foreign buyers will be purchasing, under the deferred payment plan, a wide variety of such products as radio sets, cooking and heating appliances, vacuum cleaners, washing and ironing machines, stoves and heating equipment, farm light plants, furniture, pianos, safes and office equipment, health exercisers, and even barber chairs and equipment. Indeed, when the essential test of ease of repossession is applied, the array of American products that can and will be disposed of abroad, to be paid for while they are being used, is really formidable.

Time Payments and the Motor Car.—In a recent report of the Department of Commerce (Trade Information Bulletin No. 649, Installment Selling of Automobiles in Latin America) it is estimated that the exports of American automobiles to South America in 1928 totaled 114,539, representing an increase of approximately 35% over 1927, 64% over 1925,

and 57% over 1923. Eighty-four per cent of these were sold on time payments. When it is considered that, in 1927, 61% of all automobiles sold to European countries were sold under the same method, it can be readily realized how important a part installment selling plays in our foreign trade with motor vehicles as our leading export.

Dealers Generally Discount Paper.—The bank, as a rule, acts as the intermediary through which the dealer abroad is enabled to obtain the cash with which to meet the drafts of the American manufacturer or exporter. By discounting at his local bank paper by means of which the time-payment sale is financed, the dealer is able to import the product on the usual 90- or 120-day terms from the United States and pay the drafts when due with the proceeds. The discount rate on such paper, however, ranges from 9% to 12% per annum and this, of course, must be covered in the price at which the dealer sells to his customer. In some countries local finance companies exist, generally handling paper covering motor cars or other products in which they are particularly interested. Where such companies do not exist and the banks do not readily discount time-payment paper, the dealer must carry his own paper.

The Conditional Sales Agreement.—This form of sales agreement calls for a specified down payment which ranges from 20% to 50% but averages about one-third of the selling price. The remainder is usually divided into equal consecutive monthly install-

ments. The agreement stipulates that the title remains with the seller until final payment, when it automatically passes to the purchaser. As long as the payments are made as agreed, the seller cannot avoid the contract and the title must pass on final payment. Two points which remain unsettled with regard to conditional sales in some countries abroad, however, concern the rights of innocent third parties who have purchased the product believing it paid for and the rights of trustees in bankruptcy as against the seller.

The Hire-Purchase Agreement.—The principal difference between the hire-purchase agreement and the conditional-sale agreement is that in the former the owner contracts to rent the vehicle for a certain period and, after the lessee has paid a certain number of installments of rent, he has the option to purchase the product. Under the conditional-sale he is obligated to do so. The hire-purchase contract is binding on the lessor but not on the lessee. If he so desires the lessee may discontinue payments at any time whereupon the lessor resumes immediate possession.

Promissory Notes.—Some of the deferred payments abroad are merely guaranteed by means of promissory notes. Where these are used the title immediately passes to the purchaser and the only security which the seller has is the general assets of the purchaser. Where a time-payment sale is so financed, the seller does not prevail over an innocent third party and in case of bankruptcy has no preferred status.

Chattel Mortgage.—In a few countries the chattel mortgage is the usual form of security. In this form of transaction the title passes to the purchaser who immediately encumbers it by giving a lien to the seller until the final installment is paid. The mortgage is, thereupon, automatically liquidated.

Credit Duration and Finance Charges.—The usual term of most sales on the deferred payment plan is one year. In some countries more liberal terms are allowed to small owners such as those of trucks and busses who are attempting to pay their installments out of earnings.

In many countries interest alone is charged on the amount outstanding. In a few a flat finance rate ranging from 10% to 12% is charged. This is figured on the balance after the down payment has been deducted and differs from regular interest charges in that the lump sum thus arrived at is divided into equal monthly installments to be paid with the principal, while the interest rate decreases each month.

Insurance.—Compulsory insurance is not extensively developed abroad and in many countries of Latin America there are no facilities at all for insuring motor cars. In some countries it is optional with the purchaser whether he insure and in those cases the dealer usually protects himself until the car is paid for. Insurance against fire, theft, and collision is usually required by dealers and finance companies in most countries. The premium is usually spread out over the installments with the finance charges.

Repossession, Bankruptcy, and Unauthorized Sale.—Under the laws of most foreign countries the dealer may repossess the product where the purchaser defaults in payments or sells the product. In some cases the court orders seizure and sale at public auction reimbursing the seller with the proceeds.

The rights of the seller are, likewise, generally protected against the purchaser becoming bankrupt before completing his payments. In most countries the seller comes in ahead of general creditors and either repossesses the product or causes it to be repossessed by proper authority.

Similarly, in case the purchaser sells the product to a third party without notice before completion of installment payments, the seller or owner is protected, provided the contract secures his ownership or gives a lien upon the product. In many countries such contracts cannot be legally drawn. In most countries, however, the purchaser is criminally liable under such circumstances.

Improved Credit Facilities Needed.—In a great many foreign countries local interest rates averaging 12% are detrimental to the further extension of time-payment sales. The advent of American finance companies would, it is believed, considerably increase such sales in many countries. In only two countries of Latin America, however, do European dealers have any advantage over their American competitors as regards financing facilities, and as American cars monopolize both markets the advantage is more theoretical than real.

Dealer Financial Pivot in Time Sales Abroad.—As can readily be seen, the foreign dealer is the financial pivot around whom the whole system of deferred payment sales abroad revolves. By discounting the paper given him by his customer he is able to finance the importation of the product. Usually, however, he demands 90-day D/A terms from the American manufacturer as time is required for the goods to be displayed and sold and the conditional-sale, or hire-purchase agreement to be executed. The credit position of the dealer is, therefore, an essential element in the whole structure which supports the ultimate delivery of the product to the customer. As importer and as endorser of the paper of the purchaser, the dealer must present a fairly satisfactory credit picture.

Industrial Machinery and Time Payments.—The financing of industrial machinery on time payments abroad has been handled somewhat similarly to that of motor cars, electric refrigerators, etc. The acceptance banks are prevented by rules of the Federal Reserve Banks from discounting the export paper of American machinery manufacturers for longer than 90 days, with a possible extension to 6 months financing in exceptional cases. Some of the largest export commission houses, therefore, with branches abroad, have arranged through local banks in foreign countries to finance machinery and equipment sales to foreign customers on conditional-sale, hire-purchase, or chattel-mortgage agreements, being paid for the equipment out of its own earnings in the

shop or factory of the purchaser, while still maintaining a lien upon it.

Repossession of Industrial Equipment.—Repossession in the case of such equipment, of course, is not a profitable undertaking and it is seldom resorted to unless the particular enterprise proves a total failure. In such an event the dismounting of the machinery and its resale locally or transshipment to another market is only accomplished at much greater loss than in the case of motor cars and other similar products. The special type of such machinery or equipment, the wear and tear on it, and the difficulty of finding a market elsewhere, all mitigate against such a process.

Joint Financing of Industrial Projects.—For this reason, where the undertaking is large enough, the manufacturer will undertake to finance such equipment purchases through American investment houses, obtaining cash for new issues of stocks or bonds in the foreign industry which is applied against the purchase. Many of the foreign loans which have been placed in the American market during the past five years have gone indirectly toward the financing of extensions of betterments in foreign industries necessitating the purchase of American machinery or equipment.

How High Call Money Affects Exports.—In some instances manufacturers have accepted new stock or bonds in payment for machinery or equipment sales, but this has only been true in the case of those exceptionally strong financially. In the past year or two,

the high rates obtainable for call money on the New York Stock Exchange have worked against such arrangements, manufacturers with large treasury funds preferring to invest them at 8% to 10% on the call market rather than finance the export of their product in this manner. Many foreign industries have been hampered in their justified growth as a result.

American-Owned Industry Abroad.—As the demand for motor cars in certain markets abroad has grown, American manufacturers have found it more economical to erect their assembly plants abroad avoiding higher duty on finished products, taking advantage of cheaper foreign labor and training it in American methods of mass production. In order to justify such an investment or to make such methods pay, the volume of sales must have grown to considerable proportions. As it is, assembly plants or complete factories of American motor car manufacturers are now in operation in such markets as England, Germany, France, Japan, Australia, and the Straits Settlements.

Financing Shipments of Parts for Assembly.—Where the finished parts are shipped to an assembly plant abroad and there assembled into a finished product, the financing becomes a matter of inter-office debits and credits. Ordinary commercial forms of export financing are seldom used. In some countries, however, separate corporate entities are engaged in assembling and distributing motor cars and refrigerators. In these cases the financing is done on a D/A basis, or where the American manufacturer has an

interest in the foreign assembling plant on open account.

American Finance Subsidiaries Abroad.—So far the operations of American finance companies abroad have been limited to those finance subsidiaries set up in conjunction with the assembling plants of such corporations as the General Motors and Ford Motor Company. Where these companies sell through dealers abroad, arrangements are usually made to re-discount the paper accepted by the dealer through the American finance company of the motor car company. The distribution and financing of the product have thus generally been found to be inextricably bound together and sales have responded almost automatically to the establishment of satisfactory financing facilities.

Foreign Activities of American Finance Companies.—Finance companies now engaged principally in the financing of time payments on domestic sales, have in some cases extended their operations abroad successfully. In doing so they have, of course, come into direct competition with local banking institutions and their operations have not been looked upon with favor in all instances. A limited number of finance companies have begun to develop activities abroad and are gradually developing export activities in a number of foreign countries, including the major industrial countries of the world.

Where Financing Induces Sales.—It is noteworthy that these companies are not adopting a passive attitude in those markets where they have chosen to

operate. Instead of waiting for foreign dealers to come to them for accommodation they have adopted the policy of going after American manufacturers selling them their finance plan for a particular foreign market exactly as they have in the domestic market, and utilizing established contacts among foreign dealers for the purpose of pushing the manufacturers' goods abroad on a time-payment plan. Where a manufacturer's business on a cash basis abroad may have been measured in thousands of dollars annually, the added facility of time payments has been known to run the business up to hundreds of thousands in a short period. The foreign dealer, under the ægis of the American finance company, is supplied with the tremendous selling appeal of time payments and his profits mount as rapidly as his enthusiasm and energy will permit.

Advantages of Operation Through Dealers.—Dealers abroad who have been in the hands of local banks and whose operations have been hampered by lack of capital may thus obtain a new freedom through the medium of the American finance company interested in pushing the sales of certain lines. The finance company, by operating through selected foreign dealers, educate these dealers in their methods and through them spread the gospel of the time sale. The system is advantageous to the manufacturers because payment is guaranteed through the finance company who discounts the dealer's paper received from his customer, providing the dealer with funds with which to meet his drafts promptly.

Procedure of Finance Plan.—Briefly the procedure under the ordinary finance plan abroad is similar in scope and detail to that used in the United States. If the foreign dealer is satisfied that his customer is a good risk he fills out the "purchaser's statement" on the back of the finance company's contract form. He then obtains approximately 25% of the cash selling price as down payment which he keeps. To the unpaid balance he adds the service charge ranging from 9% on a year's contract to 12% on an eighteen months' contract. The purchaser then signs the contract and serial note agreeing to pay the total amount in equal monthly installments. He then writes up the sale using the conditional sale contract, mortgage, or lease form. These are supplied in correct legal form for the dealer's country by the finance company. Where installation is necessary the purchaser is requested to sign an installation certificate which is affixed to the sales form thereby protecting himself against future claims due to alleged faulty installation. If the laws of the country require registration this is next attended to. The dealer then signs a form assigning the sales contract to the finance company and endorses the note to the same company, receiving in return the finance company's check. The finance company undertakes to make the collections cooperating with the seller at all times.

Foreign Laws Complicate Financing.—It is only to those countries whose laws permit the approximate operation of this procedure that the leading Ameri-

can finance companies have so far extended their operations. In the appendix (D) is given a table showing the many variations in the laws and customs of the Latin-American and European countries covering such questions as the kind of contract in use, the average percentage of down payments and period of installment, the type of finance charge, whether insurance is required, if so, by whom placed and whether premium is paid by buyer and over the entire period in the finance charges, what protection is afforded against default and conversion, and the rights and duties in repossession and resale.

Growth of Finance Companies Inevitable.—It will be seen that in the majority of foreign countries the laws and customs are not as well adapted to the operation of the finance company in time sales as they are in the United States. Wherever it is practical to operate, however, the popularity of the time sale can be trusted to induce either American finance companies to enter the market or domestic capital to establish finance companies locally. In either event the extension of the deferred payment plan seems inevitable, especially as it meets so admirably both the demands of the customer and the needs of the dealer.

Time Payment Not an Evil.—There are still those in this country who decry the time-payment sale and predict all sorts of dire economic consequences in its train. Naturally such persons deplore the rapid extension of the system abroad and foresee a world in

debt bondage, hopelessly enslaved to the finance companies and unable to provide for the necessities of life while enjoying its luxuries. To the trained economist, however, there is much fallacy in this point of view. The difference between prosperity and hard times in most areas of the world is more a matter of the *tempo* of business than of the volume of credit outstanding. With the available credit in the world being utilized at an accelerated pace by greater sales volume and larger turnover of capital, the *tempo* of business can be speeded up to take care of any difficulties that may arise because of the heightened credit structure. Moreover, it is an established fact that by deferring payments on a great many luxuries which formerly could only be bought after a process of saving, larger amounts of cash are released for the purchase of those things which are classed as everyday necessities. The thing can be overdone, of course, and, before long, finance companies may have to take into consideration the percentage of installment payments already being made in proportion to total income before judging the capacity of the purchaser to fulfill his obligations. The incentive to work and produce, however, has been noticeably augmented where the purchaser has definitely obligated himself, and to this extent the modern producer is somewhat akin to the tropical laborer who can only be *made* to work after he has acquired a debt. In both cases, the result is beneficial to society as a whole for it induces production, and increased

production in the last analysis means increased wealth. The extension of this system therefore to those countries where production has languished because of the apathy of the individual may constitute a blessing in disguise.

CHAPTER VII

Financing Through Acceptances

In London and New York there exists at all times a large floating supply of money available for short-term investments. The financing of exports by means of bankers' acceptances has long been the practice in London, although the use of this method of financing exports has only been in existence in the United States since the establishment of the Federal Reserve System, prior to which time drafts could not be drawn legally on United States national banks. To encourage the wider use of the dollar in foreign trade transactions and give it the same position in international trade that had been formerly enjoyed only by the pound sterling, was the real purpose of this legislation embodied in the Federal Reserve Act of 1912.

Provisions of the Federal Reserve Act.—The law as originally passed has been since modified so that it now provides that any banks may accept bills of exchange arising out of foreign and domestic transactions up to 50% of their unimpaired capital and surplus, which on approval of the Federal Reserve Board may be raised to 100%, with the proviso that the aggregate amount of acceptances arising out of domestic transactions shall not exceed 50%. More-

over, any member bank may accept drafts or bills of exchange drawn by banks or bankers in foreign countries for the purpose of providing dollar exchange in those countries, for an amount not exceeding 50% of its paid-up and unimpaired capital and surplus. Such bills may be drawn for a period not to exceed 90 days' sight, provided that no member bank may accept for any one company or individual bills aggregating more than 10% of its paid-up and unimpaired capital stock and surplus, unless the bank is secured by attached documents or some other security arising from the same transaction as is covered by the acceptance.

Practical Working of Acceptance Financing.—When an exporter wishes to avail himself of a banker's acceptance as a means of financing an outgoing shipment he may arrange in advance with the New York banker what is known as an acceptance credit. This means that usually by an exchange of letters with the bank, it is agreed that after the exporter has drawn drafts on a foreign consignee up to a certain definite amount he may draw another draft or drafts on the bank for a like sum and tenor and the bank agrees to accept them. The second draft is then returned to the exporter bearing the bank's acceptance and is readily disposed of by him through the discount market placing him in funds covering the export shipment immediately. At the time that he draws the draft the exporter also signs an acceptance agreement whereby the bank retains a lien over the goods. When the merchandise is paid for abroad by

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ACCEPTANCE AGREEMENT

Oct. 29, 1929 19

For and in consideration of the acceptance by CENTRAL HANOVER BANK AND TRUST COMPANY, of ~~my~~/our draft on it numbered 869 dated Oct. 29, 1929 payable 90 days date for One hundred thousand Dollars ($ 100,000.), and all other drafts which may hereafter be accepted by the CENTRAL HANOVER BANK AND TRUST COMPANY at ~~my~~/our request, I/we hereby deposit with and assign and transfer to said Trust Company as collateral security for the payment of said drafts at maturity, as well as for the payment of any and every debt or liability of every nature from the undersigned to said Trust Company,

B/L to order ourselves covering 200 bales Upland Cotton shipped on S.S."America" Oct. 28th, 1929 to Liverpool

with such additional collaterals as may from time to time be required by any of the officers of said Trust Company, and which the undersigned hereby promises to furnish on demand. And the undersigned hereby gives to said Trust Company, or its assigns, full power to sell, assign and deliver the whole or any part of said collaterals, or any substitutes therefor, or any additions thereto, at any Brokers' Exchange or elsewhere at public or private sale, at the option of such holder, on the non-performance of any of the promises herein contained, and without notice of amount due or claimed to be due, without demand of payment, without advertisement and without notice of the time or place of sale, each and every of which is hereby expressly waived; and on any such sale the Trust Company, its assigns or any of the officers of said Trust Company, may purchase on its own account and without further accountability except for the purchase price thereof, the whole or any part of the property sold free from any right of redemption on the part of the undersigned, which right is hereby waived and released.

It is further agreed, that any surplus arising from the sale of said collaterals, beyond the amount due hereon, shall be applicable upon any claim of the said Trust Company arising directly or by assignment against the undersigned at the time of said sale, whether the same be then due or not due.

And it is further agreed that any moneys or properties, at any time, in the possession of CENTRAL HANOVER BANK AND TRUST COMPANY belonging to any of the parties liable hereon to said Trust Company, and any deposits, balance of deposits or other sum at any time credited by or due from said Trust Company to any of said parties, shall at all times be held and treated as collateral security for the payment of any other obligation, indebtedness or liability of the undersigned to the said Trust Company, whether due or not due, and said Trust Company may at any time, at its option, set off the amount due or to become due hereon or any other obligations against any claim of any said parties against said Trust Company.

And I/we also agree to place said Trust Company in possession of sufficient funds in cash one day previous to the maturity of said draft, and of any other drafts which the said Trust Company may hereafter from time to time accept to meet the maturity of said draft or drafts respectively, together with commission as agreed and any interest which may accrue thereon, calculated at the rate of six per cent. (6%) per annum. Any and all drafts or bills of exchange now or hereafter delivered by ~~me~~/us to said Trust Company to be collected shall be delivered to and received by it as security for said acceptance or acceptances without impairing in any way ~~my~~/our obligation hereunder to place said Trust Company in funds before the maturity of said acceptance or acceptances as aforesaid, and all documents relating to such bills for collection shall likewise be held and received by said Trust Company as security with the privilege of delivering same to drawees upon acceptance or acceptances unless instructions to the contrary shall be attached to each bill.

The said Trust Company shall have the right to apply the proceeds of such collections against the payment of said acceptance or acceptances and of any other indebtedness due or to become due from ~~me~~/us.

It is expressly agreed that I/we assume all responsibility for the collection of drafts or bills delivered as aforesaid and for any loss, costs or expense suffered or incurred by said Trust Company in connection therewith, and that said Trust Company shall be held free of responsibility for, and ~~my~~/our obligation to place said Trust Company in funds as aforesaid shall not be affected or impaired by, any default, neglect, suspension, insolvency or bankruptcy of any correspondent or sub-agent to whom said bills or drafts may be entrusted for collection or for any delay in remittance, loss in exchange, or the loss of the said drafts or bills or their proceeds during transmission or in the course of their collection, and I/we expressly agree to assume all responsibility or, and that ~~my~~/our said obligation to said Trust Company shall not be affected or impaired by, the non-payment of any bills of exchange which may be received by said Trust Company or by any collecting bank, agent or sub-agent in payment of such drafts or bills of exchange.

I/we also assume all responsibility of, and said obligation to place said Trust Company in funds shall not be affected or impaired by, any risk or error in the course of transmission of telegrams and cablegrams or the loss of letters or other documents which may be sent in connection with the said drafts or bills for collection.

I/we also agree that in the event that any of the said Trust Company's correspondents, agents or sub-agents for collection of said drafts or bills shall advise it that any of said drafts or bills are not promptly accepted or paid, or in the event of the suspension, failure or assignment for the benefit of creditors, by or the filing of a petition in bankruptcy against the drawee or the drawees of any of said bills for collection, that I/we will immediately upon receipt of such notice, waiving protest, and notice of protest, pay or cause to be paid to said Trust Company in cash the face amount of any such draft or bill for collection which has not been accepted or the drawee of which has suspended, failed or assigned or against whom a petition in bankruptcy has been filed as aforesaid.

In the event of my/our suspension, failure or assignment for the benefit of creditors, or of a petition in bankruptcy being filed against me/us, or the non-fulfillment of any obligation hereunder on ~~my~~/our part to be performed, all obligations and liabilities to said Trust Company on ~~my~~/our part shall immediately, without notice, accrue and mature and become due and payable, and it is also agreed that in either of those events, said Trust Company may take such action with respect to the collection of any or all of said drafts and bills delivered as aforesaid for collection as it may deem advisable to protect its interests, and I/we hereby agree to indemnify and save said Trust Company harmless from any loss, costs, damage, expense (including reasonable attorney's fees), suffered or incurred by it by reason of such action or by reason of ~~my~~/our failure to perform any of the obligations arising hereunder.

This obligation shall continue in force and remain applicable notwithstanding any change in the individuals comprising our firm, whether such change shall arise from the accession of one or more new partners or from the death, retirement or succession of any partner or partners.

All rights arising under this agreement shall be determined according to the laws of the State of New York.

Authorized Signature SMITH BROS. per JOHN SMITH

the consignee, these funds should then be used to liquidate the acceptance.

Advantage of Acceptance Financing.—This method of financing exports is advantageous to the exporter, to the bank, and to the importer. The exporter is enabled to get his money without delay as soon as the shipment is ready. The bank is enabled to earn a commission through the loan of its credit secured either by the goods themselves or satisfactory collateral of the foreign importer, while the foreign importer may secure the goods by paying or promising to pay the bank the face value of the documentary drafts, using any collateral as security which may be satisfactory to the banker's branch or correspondent. Before maturity of the draft the foreign importer will have presumably disposed of the goods and be in a position to release his collateral by meeting his obligation to the foreign bank.

Value of Bankers' Acceptances in the Foreign Exchange Market.—In *The Creation of Acceptance Credits,* by W. Ward, the following practical example of the use of bankers' acceptances in maintaining a stable dollar exchange abroad is cited:

> A steamer from the United States arrives at a Central American port with cargo and mail, including documentary sight dollar drafts drawn by the American seller on the Central American buyers. In the course of a day or two these documentary drafts are presented, simultaneously bringing all the drawees into the export market as buyers of dollars. The total of their requirements is likely to exceed the supply of dollar exchange which local bankers have accumulated from local exporters of products to the United States, or

Oct. 29, 1929

WHEREAS, SMITH BROS.

the undersigned has/ have requested the CENTRAL HANOVER BANK AND TRUST COMPANY to accept the drafts mentioned and described in the acceptance agreement of SMITH BROS.

dated the 29th day of October 1929, printed on the reverse side hereof, and

WHEREAS, the said CENTRAL HANOVER BANK AND TRUST COMPANY is willing to execute such acceptances provided the undersigned will unconditionally guarantee to it the prompt payment at maturity of the said drafts and of any other drafts of SMITH BROS. which the said Trust Company may hereafter accept from time to time.

NOW, IN CONSIDERATION OF THE PREMISES and the sum of One Dollar to the undersigned in hand paid, the receipt whereof is hereby acknowledged, the undersigned do hereby unconditionally guarantee to the said CENTRAL HANOVER BANK AND TRUST COMPANY, its successors, endorsees and assigns, the prompt payment at maturity of any and all drafts accepted by the CENTRAL HANOVER BANK AND TRUST COMPANY, pursuant to said acceptance agreement, and any and all renewals and extensions thereof, the prompt performance by them of all the terms, conditions and covenants contained in said acceptance agreement, and the payment of every debt and liability of SMITH BROS.

to the CENTRAL HANOVER BANK AND TRUST COMPANY.

The undersigned hereby consents to any renewal and extension of time of payment of any draft, drafts or other indebtedness that may be granted by the CENTRAL HANOVER BANK AND TRUST COMPANY, and do also consent that the securities set forth in said acceptance agreement may be exchanged or surrendered from time to time without notice to, or further assent from the undersigned, and that the undersigned will remain bound upon his guarantee notwithstanding such changes, surrenders, renewals and extensions.

The undersigned expressly waives presentment, demand of payment, protest and notice of dishonor of said drafts and acceptances thereof, and does also waive notice of the non-performance on the part of SMITH BROS of any of the provisions or covenants of the aforesaid acceptance agreement on ~~his~~ their part to be performed and notice of any sale of the collateral securities aforesaid.

This guarantee is made without any limitation as to duration or amount, and the undersigned agree that it shall continue and that the said CENTRAL HANOVER BANK AND TRUST COMPANY may continue to act on the faith thereof to any extent until such time as the said Trust Company shall receive from me/us written notice of its withdrawal; which notice, however, shall not in any wise affect any draft and acceptance theretofore made or any other liability theretofore incurred, whether then due and payable or thereafter to become due and payable, and not fully paid at the time of the receipt by the said Trust Company of said notice.

The Undersigned declares to and covenants with the said CENTRAL HANOVER BANK AND TRUST COMPANY its successors, endorsees and assigns, that the undersigned ha ve no defense whatever to any action, suit or proceeding at law, or otherwise, that may be instituted upon his guarantee.

This guarantee shall be construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the undersigned ha ve set ~~my~~ our hand and seal this 29th day of Oct. 1929

SMITH BROS per John SMITH (L. S.)

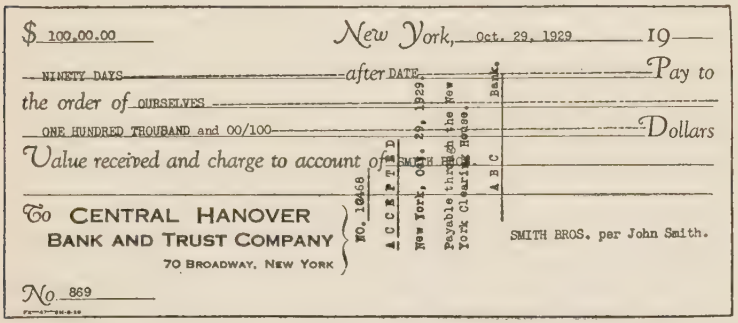
otherwise, and which are either already available as dollar deposits in account with bankers in the United States or else in the course of transit for collection and credit to these accounts. If these drawees must compete for the inadequate supply of dollars on hand, it is obvious that the result will be a sharp rise in the cost of dollar exchange without any augmentation of the supply, to the detriment of all, and naturally also to the detriment of further trade with the United States. If the local banks, have, however, arranged draft credit facilities with the United States correspondents, the situation is simplified. They can sell their dollar cheques on the United States to the drawees, thus furnishing them with funds with which to take up the trade drafts, and they can simultaneously draw for an equivalent sum covering drafts at 90 days' sight on their American bank correspondents. The cheques and time drafts will arrive here in the same mail. The time drafts will be immediately accepted and discounted and the proceeds credited to the accounts of the Central American banks and thus utilized to cover the cheques. During the 90 days that will elapse before the time drafts mature, the Central American banks can, as opportunity affords and without forcing the market, accumulate and remit the dollar exchange with which to pay the drafts when presented for payment.

The New York Acceptance Market.—Dealers who make it their business to buy and sell bankers' acceptances have established themselves in New York and offer such paper for sale through circulars issued to banks, corporations, or individuals who have surplus funds not otherwise profitably invested. As the rates at which these are offered are usually attractive, buyers can acquire such acceptances for any maturity desired, up to 6 months, and feel sure that their money will be received at maturity. If funds

are needed before the acceptance matures they can be readily resold or rediscounted, if eligible bills, through the local Federal Reserve Bank.

Eligibility for Rediscount.—Eligibility for rediscount is defined in Section X of the Federal Reserve Board regulations of 1924 as follows:

Acceptances for any one customer in excess of 10% of the capital and surplus of the accepting bank must remain actually secured throughout the life of the acceptance, and in the case of the acceptances of member banks this security must consist of shipping documents, warehouse receipts, or


$ 100.00.00 New York, Oct. 29, 1929 19—
NINETY DAYS after DATE Pay to
the order of OURSELVES
ONE HUNDRED THOUSAND and 00/100 Dollars
Value received and charge to account of SMITH BROS.
To CENTRAL HANOVER BANK AND TRUST COMPANY
70 BROADWAY, NEW YORK
No. 869
ACCEPTED
No. 10468
New York, Oct. 29, 1929
Payable through the New York Clearing House.
Bank
A B C
SMITH BROS. per John Smith.

other such documents, or some other actual security growing out of the same transaction as the acceptance, such as documentary drafts, trade acceptances, terminal receipts, or trust receipts which have been issued under such circumstances, and which cover goods of such a character as to insure at all times a continuance of an effective and lawful lien in favor of the accepting bank, other trust receipts not being considered such actual security if they permit the customer to have access to, or control over, the goods.

Financing a Manufacturer Through Acceptances.—The banker's acceptance may be utilized by an

American manufacturer to finance the processing or manufacture of raw material bought abroad whose finished product is designed for export. Suppose an American sugar refiner has contracted for a supply of raw sugar at a certain price from Cuba and wishes to protect himself against a fluctuation in the price of the refined product during the refining process. If refined sugar should fall before he is ready to sell abroad he might lose heavily. He therefore sells his refined sugar, say to Canada, for forward delivery. He then arranges an acceptance credit through his New York bank drawing a draft against the bank exactly as if the shipment were ready to move. He shows the New York bank his future sales contract and undertakes to submit documentary evidence of shipment when the refined product is finally shipped. This evidence may be submitted to the bank during the period for which the drafts under the credits are drawn or renewed. He may or may not forward the draft with documents through the accepting bank. So long as the bank is assured that the shipment for which they have accepted the drafts is actually made, they may permit the manufacturer to send the documents to his own Montreal agent for collection. When they are forwarded through the bank the drawee or buyer in Montreal will furnish security to the bank's Montreal correspondents, in exchange for the documents, undertaking to place the exporter in funds at least three days before maturity. Thus, without speculating, the refiner can sell his product forward abroad and by discounting the banker's ac-

ceptance of his draft drawn against the future shipment of refined sugar, obtain cash with which to pay for his raw sugar.

Acceptances in Inland Financing.—Exporters in an inland city where there is no market for acceptances, may draw on their foreign buyers and discount their documentary drafts with their local bank. The local bank sends these documentary drafts for collection to their correspondent abroad. It then draws its own draft on its correspondent bank in New York for the approximate amount of the proceeds. This draft is discounted after acceptance and the inland bank is placed in funds for the amount of the draft discounted for the exporter. When the proceeds of the collection are received from abroad they are used to liquidate the acceptance of the New York correspondent bank. The inland bank is thus enabled to take advantage of the acceptance market in New York. The same results may be obtained by having the inland exporter draw on the local bank's New York correspondent bank under a credit established in New York by the local bank. In each case the export transaction must not have been completed at the time when the drafts are accepted nor can the acceptance drafts be drawn for a longer period than that still necessary to complete the original transaction. In other words, neither the local bank nor the exporter should enjoy the acceptance credit for a longer period than is required to complete their export transaction.

Raw Cotton Financing Through Acceptances.—An American cotton merchant sells raw cotton to a foreign buyer. He may have bought cotton in say Memphis, Atlanta, and Charleston, but wishes to make shipment from the latter port. By depositing his warehouse receipts for the cotton in all three places with a New York acceptance bank as collateral he may obtain an acceptance credit drawing his draft on the bank and discounting it after acceptance. The New York bank will release the warehouse receipts to the merchant on trust receipt enabling him to deliver the cotton to the steamer at Charleston and obtain an ocean bill of lading. This, together with the other necessary documents including draft on consignee, is then turned over to the New York bank for collection through the bank's foreign correspondent and the proceeds are used to meet the bank's acceptance when it is presented to the bank for payment.

Acceptance Financing of Consignments for Sale Abroad.—If the same cotton merchant wished to ship the cotton abroad on consignment for sale he would deliver the documentary draft to the accepting bank who would forward it to its foreign correspondent. The foreign correspondent bank would temporarily release the documents to the merchant's agent so that he could clear and warehouse the raw cotton. The warehouse receipts are then returned to the foreign correspondent bank and subsequently turned over to the foreign spinner to whom the cotton is

eventually sold against payment or acceptance in accordance with the terms of sale.

Acceptance Financing of Foreign Shipments.—New York and London being the two most important acceptance markets, banks there often accept drafts drawn to cover shipments between other foreign countries, whereupon the drawer discounts the acceptance in these centers where an abundance of short-term funds is available. Thus, a sugar merchant in Cuba, on making a shipment of raw sugar to a German refiner, who has arranged a revocable credit through a German bank, may draw a draft through a Cuban bank on the Cuban bank's New York correspondent for acceptance. Two sets of documents must be provided by the Cuban merchant, one set going to the German bank which arranged the credit and the other set going forward to the accepting bank in New York. The German refiner is thereby not delayed in receiving the documents necessary to clear the sugar on arrival. On accepting the draft the duplicate documents are forwarded by the acceptor to his correspondent bank in Germany. If some other means are taken, however, of informing the New York accepting bank that the shipment has actually been made, it is not essential to send it duplicate documents. In this transaction the Cuban merchant through the Cuban bank discounts the New York banker's acceptance in the New York acceptance market and is placed in funds immediately. The Cuban bank sends one set of documents to the German banker who has arranged the credit and who

disposes of them in accordance with the arrangement with his client. The New York bank on receipt of the duplicate documents, which assure it that shipment has been made, relays them to its correspondent in Germany who collects from the German bank arranging the credit, placing the New York bank in funds before the acceptance is presented for payment. Thus the Cuban merchant realizes immediately on his raw sugar through the Cuban bank which discounts the drafts accepted by the New York bank on the New York acceptance market. The German refiner gets possession of the sugar on receipt of the document and eventually reimburses the German bank for the amount of the credit it has arranged. The German bank in turn undertakes to place the New York bank in funds through the New York bank's German correspondent bank three days before maturity of the drafts it has accepted, while the acceptance market in New York provides short-term funds for the entire transaction.

Money Market Essential in Acceptance Financing.—Where no short-term money is available in sufficient quantities, therefore, acceptance financing is impossible, there being no point in a bank accepting a draft if it cannot be discounted. The American exporter is fortunate, therefore, in having near at hand a short-term money market which enables him to finance exports by so convenient and inexpensive a method as the banker's acceptance. Acceptance financing, therefore, while not as absolutely certain

as the irrevocable letter of credit, is a convenient method of financing exports. It is often combined with the revocable letter of credit in providing the acceptance bank some assurance, even if subject to cancellation before negotiation, that the drafts will be met at maturity. Combined with an irrevocable letter of credit it gives the acceptor absolute assurance.

Purchasers of Acceptances Protected.—The purchaser of an acceptance for value is not concerned with the credit of the drawee or whether he pays for the goods or not. He looks to the accepting bank and in case of failure of that institution to the drawer. Acceptances, therefore, have come to be looked upon as a very high type of security, readily marketable and just as safe as the position of the accepting bank and the drawer can make them. The inordinate demand for call money by stock exchange brokers to supply an apparently insatiable bull market, however, has in the past year (1929) so raised the rate for call loans that they had become a much more profitable investment for short-term loans. Thus while acceptances were being offered at 5½%, call money was bringing 8% to 9%. Notwithstanding this condition, the bill market has been taken care of by the banks in a very satisfactory manner and in 1929 the dealers had, perhaps, the best year in the past five both as to distribution of bills and their ability to get money to carry their portfolios. The acceptance business in general has never been in such

an independent position as it is just now. Current reports indicate a demand for bills for investment purposes that the dealers are quite unable to satisfy notwithstanding the fact that the total outstanding volume at this time is close to $1,300,000,000.

CHAPTER VIII

Financing Consumers' Goods

The fourth great category of commodities which, because of their very nature demand a special type of financing differing from any of those already covered, is that group of goods designed to be sold to the consumer through the different intermediaries such as importer, wholesaler, or jobber and retailer. The volume of these goods in our total exports constitutes an astonishing percentage estimated as at least a quarter of the whole. They are goods readily consumed or used up by the public such as pharmaceuticals, clothing and haberdashery, stationery, proprietary medicines, and foods and canned goods. As a rule they are the goods one finds in the drug stores, men's furnishing, women's shops, and the five-and-ten-cent stores in this country.

Why Consumers' Goods Require Quick Financing.—Such goods as a rule are turned over fairly rapidly and can be financed generally on either 90-day D/P or D/A terms because, generally, no longer period is required for them to reach the hands of the dealer or the consumer. Since the great price slump of 1919, dealers throughout the world have adopted a hand-to-mouth policy of buying. This policy has contributed more than anything else to the use of 90-day

financing and the multiplicity of small orders in place of the extensive stocking of goods which char-

CUSTOMER'S INSTRUCTIONS Letter A

THE SEABOARD NATIONAL BANK
OF THE CITY OF NEW YORK
FOREIGN DEPARTMENT
BROAD AND BEAVER STREETS

_____ 19

Dear Sirs:

We enclose ☐ For collection ☐ As collateral for an advance ☐ For negotiation { (subject to your approval) the undermentioned draft(s)

Documents Attached

Draft No.	Date	Amount	Tenor	Drawee	City Where Payable	B/L	INS.	INV.	MISC.

In order to insure the best possible service and save possible expense and delay the following instructions should be carefully read and filled out wherever possible.

☐ Present on receipt
☐ Present on arrival of vessel carrying goods
☐ Deliver documents to drawee on acceptance
☐ Deliver documents to drawee on payment
☐ Protest for non-acceptance
☐ Protest for non-payment
☐ Do not protest for non-acceptance
☐ Do not protest for non-payment

Advise by Cable* { ☐ Non-acceptance ☐ Non-payment ☐ Payment

Advise by Mail { ☐ Non-acceptance ☐ Non-payment

☐ Payment is to be effected at the collecting banks selling rate of exchange for sight drafts on N. Y.
☐ Payment is to be effected at the collecting banks selling rate of exchange for cable transfers on N. Y.
☐ Payment is to be effected by prime bankers check on N. Y.
☐ Payment is to be effected by cable transfer on N. Y.
☐ If requested, drawee is to be allowed to inspect the merchandise, before acceptance or payment.
☐ Interest to be collected at _____% from date of issue until approximate arrival of cover in New York.
☐ Allow Drawee interest at _____% per annum for anticipated payment.

Special instructions: _____

☐ Drawee requests that _____ be used as collecting bank.
☐ In case of need refer to _____ who is empowered to _____
☐ Waive charges if refused by drawee.

All charges are for account of ourselves ☐ drawee ☐

In the event of non-acceptance or non-payment instructions for coverage of insurance are as follows:* _____

(IT IS REQUESTED THAT, IF YOU MENTION THE NAME OF YOUR AGENT YOU SPECIFY HIS AUTHORITY, ESPECIALLY AS TO GRANTING DELAY OR EXTENSIONS.)

* It is understood that when bills are taken for negotiation or as collateral for an advance, you may in your discretion:
1) request cable advice, at our expense, of non-acceptance and non-payment notwithstanding any instructions contained herein to the contrary.
2) instruct your agents to insure goods after arrival against loss by fire and any other risk they may be subject to, and that any expenses so incurred will be borne by us

It is understood and agreed that all items are credited and all advances against items are made subject to final payment in cash or actual receipt of proceeds thereof, and you reserve the right of charging back any items credited, or holding them against the account prior to payment, that any advances made by you to the undersigned against any item for which payment in cash or actual credits is not received by you, will be repaid to you by the undersigned upon notice of such default, and that you shall not be liable for any loss or delay in the mails or in the transmission of cable messages or for any act or omission on the part of the collecting agency or correspondent to whom the above mentioned items may be sent for collection, you shall not be responsible for the acts, including neglect, omission, insolvency, bankruptcy or non-compliance with instructions of such correspondent or agent or sub-agent thereof, nor for loss during transmission or in the course of collection; nor for any payment until actually received by you; nor for any delay or resistance or loss in exchange; nor for any loss resulting from war, embargo, riot, insurrection, force majeure, or act of God; and further, that you are authorized to transmit the above mentioned items direct to the bank on which they are drawn, and to accept in payment checks or drafts of such drawee bank.

It is further understood and agreed that any interest and any commission chargeable will be paid by us, and that any expenses, collection charges, taxes, customs duties, port entry fees, brokerage charges or other charges or disbursements incurred in the handling or return of this or any other items, or the documents attached thereto, or the merchandise covered thereby (including bonds we may issue which you or your agents or sub-agents are obligated or advised, or deem it advisable, to give to the customs authorities or others), shall be paid by us on demand, and that you shall have a lien upon, and a security interest in, the documents and merchandise and the proceeds thereof, and that we will hold you, your agents and sub-agents harmless from all liability whatsoever for any such payment.

Very truly yours,

_____
(Official Signature)

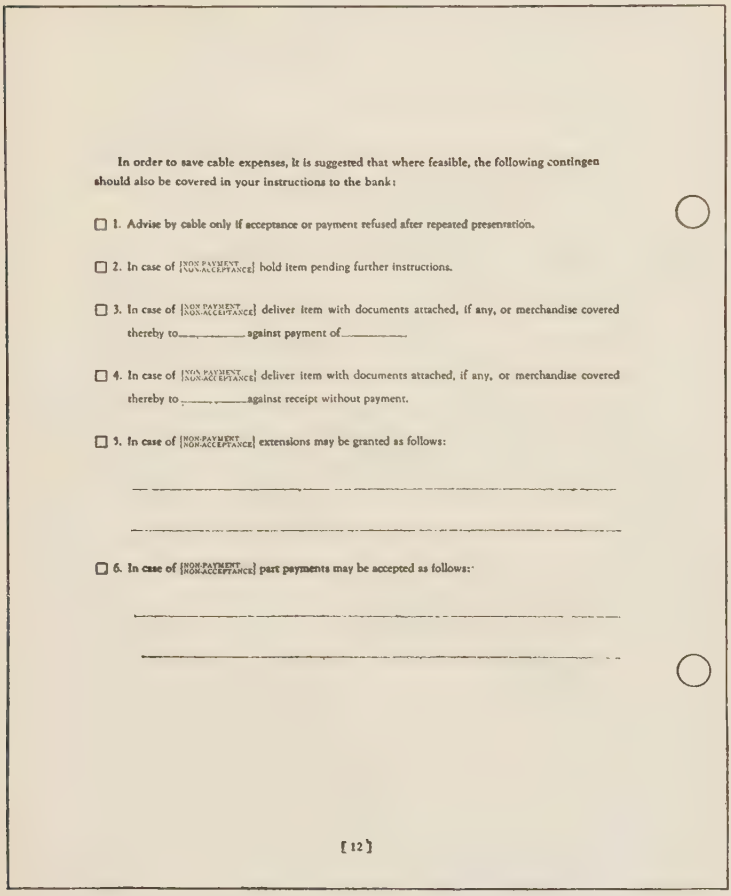
[11]

PLEASE TURN OVER

acterized the pre-war and immediate post-war period.

When to Ship C.O.D. and When to Extend Credit.—As has already been pointed out the difference be-

tween D/P and D/A financing is the difference between a C. O. D. shipment and one where the pur-



In order to save cable expenses, it is suggested that where feasible, the following contingen should also be covered in your instructions to the bank:

☐ 1. Advise by cable only if acceptance or payment refused after repeated presentation.

☐ 2. In case of [NON PAYMENT / NON-ACCEPTANCE] hold item pending further instructions.

☐ 3. In case of [NON PAYMENT / NON-ACCEPTANCE] deliver item with documents attached, if any, or merchandise covered thereby to _____ against payment of _____

☐ 4. In case of [NON PAYMENT / NON-ACCEPTANCE] deliver item with documents attached, if any, or merchandise covered thereby to _____ against receipt without payment.

☐ 5. In case of [NON-PAYMENT / NON-ACCEPTANCE] extensions may be granted as follows:

☐ 6. In case of [NON-PAYMENT / NON-ACCEPTANCE] part payments may be accepted as follows:

[12]

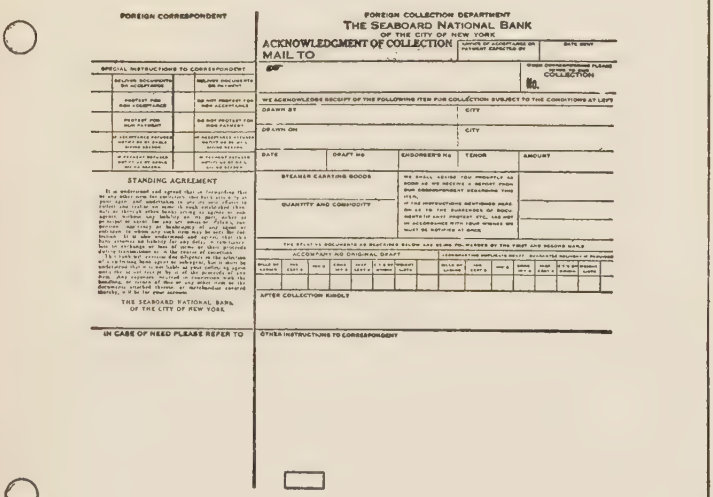
chaser gives a 90-day promissory note and takes delivery of the goods. No satisfactory rules have ever been established as a guide to the judgment of the domestic merchant in such cases. Consequently it

would be presumptuous to attempt to set up any rules on the subject in respect to foreign sales. The most that can be said is that, aside from the question of the credit of the consignee, D/P financing is usually preferable in those markets and covering those commodities where a fairly quick turnover is possible, while D/A financing is justified in those markets and covering those commodities where slower turnover is experienced. Thus hosiery for Bombay can be shipped against 90 days date D/P both because Bombay is a rapid turnover market and the product moves into consumption quickly. Canned goods for Bogota, on the other hand, may require 90 days' sight D/A financing because Bogota is a slow-paying market and canned goods are a slow-moving commodity.

How to Draw D/P or D/A.—Practically all banks accustomed to handling export drafts have developed forms which are used by their customers to furnish them with instructions as to how drafts are to be handled. A sample of one of these together with other forms used by banks in the ordinary course of handling export drafts, is shown herewith. To draw a 90-day D/P draft first obtain a number of bank bills of exchange from the bank. This should be filled in, usually in duplicate, giving the number, the date drawn, the amount, the term or tenor, *i.e.*, whether 30, 60, or 90 days, the name of the drawee on whom you are drawing and the city where payable. It is then signed and the bank's instruction sheet is filled out.

Instruction Sheet Important Detail.—The instructions to the bank as contained in the usual form will indicate first whether the draft is for collection, as

Letter B



FOREIGN CORRESPONDENT

FOREIGN COLLECTION DEPARTMENT

THE SEABOARD NATIONAL BANK
OF THE CITY OF NEW YORK

ACKNOWLEDGMENT OF COLLECTION

MAIL TO

SPECIAL INSTRUCTIONS TO CORRESPONDENT

DELIVER DOCUMENTS ONLY ON PAYMENT

DELIVER DOCUMENTS ON ACCEPTANCE

PROTEST FOR NON-ACCEPTANCE

DO NOT PROTEST FOR NON-ACCEPTANCE

PROTEST FOR NON-PAYMENT

DO NOT PROTEST FOR NON-PAYMENT

IF ACCEPTANCE REFUSED NOTIFY US BY CABLE

IF ACCEPTANCE REFUSED NOTIFY US BY MAIL

IF PAYMENT REFUSED NOTIFY US BY CABLE

IF PAYMENT REFUSED NOTIFY US BY MAIL

STANDING AGREEMENT

THE SEABOARD NATIONAL BANK
OF THE CITY OF NEW YORK

DATE OF ACCEPTANCE OR PAYMENT EXPECTED ON

DATE SENT

THESE DOCUMENTS PLEASE CREDIT AS COLLECTION

No.

WE ACKNOWLEDGE RECEIPT OF THE FOLLOWING ITEM FOR COLLECTION SUBJECT TO THE CONDITIONS AT LEFT

DRAWN BY

CITY

DRAWN ON

CITY

DATE

DRAFT NO.

ENDORSER'S NO.

TENOR

AMOUNT

STEAMER CARRYING GOODS

QUANTITY AND COMMODITY

WE SHALL ADVISE YOU PROMPTLY AS SOON AS WE RECEIVE A REMIT FROM OUR CORRESPONDENT REGARDING THIS ITEM.

IF THE INSTRUCTIONS MENTIONED HERE ON AS TO THE DISPOSING OF PROCEEDS OF PROPERTY ETC. ARE NOT IN ACCORDANCE WITH YOUR WISHES WE MUST BE NOTIFIED AT once.

THE ITEMS AS DOCUMENTED AS REACTIONS BELOW ARE BEING FOR-WARDED BY THE FIRST AND SECOND MAILS

ACCEPTANCE AND ORIGINAL DRAFT

CORRESPONDENT'S REMITTANCE ADVICE

BILLS OF LADING

TAX COSTS $

INS. $

CONS. INT. $

INT. COSTS $

OTHER

AMOUNT $

BILLS OF LADING

TAX COSTS $

INS. $

CONS. INT. $

INT. COSTS $

AMOUNT $

AFTER COLLECTION KINDLY

IN CASE OF NEED PLEASE REFER TO

OTHER INSTRUCTIONS TO CORRESPONDENT

[13]

collateral for an advance from the bank on a specific shipment, or for negotiation, *i.e.*, for discount. There are then blank spaces to describe the draft attached,

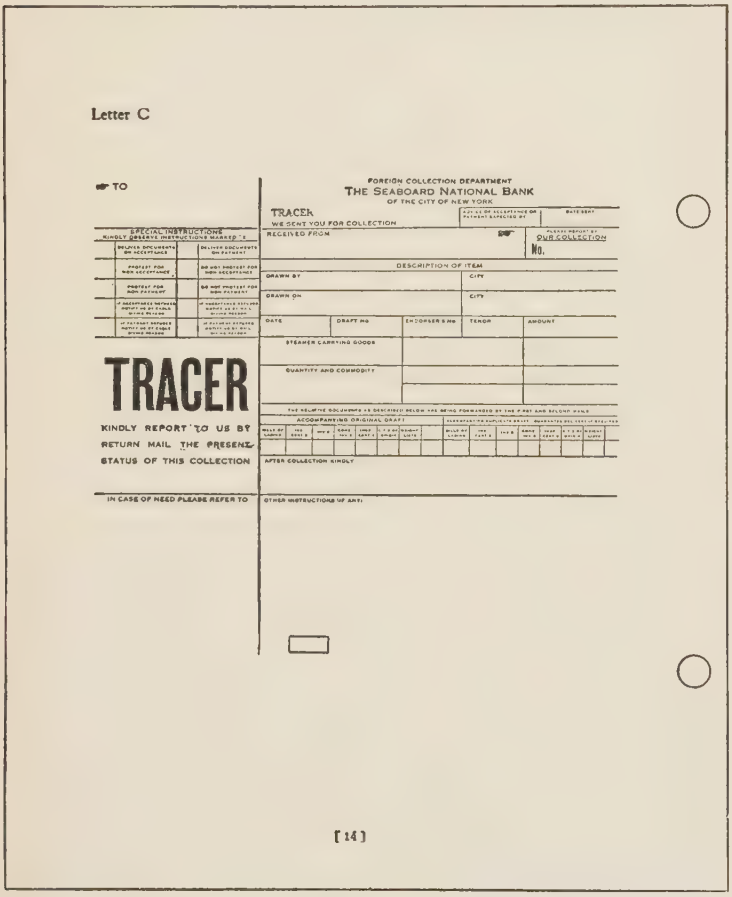
recapitulating the items mentioned above and indicating in addition what other documents are attached such as bill of lading, insurance policy, invoice, and miscellaneous. The drawer then indicates on the instruction sheet by check marks whether the draft is to be presented on its receipt or on arrival of the vessel carrying the goods; whether the documents are to be delivered to the drawee on acceptance of the draft or on payment of it; whether or not it is to be protested for non-acceptance or non-payment and whether the drawer wishes to be advised by cable or mail in case of non-acceptance, non-payment, or payment.

Drawer Indicates How Payment Is to Be Made.—The drawer likewise instructs the bank whether payment is to be effected at the collecting bank's selling rate of exchange for sight drafts on New York, or selling rate of exchange for cable transfers depending on whether remittance is to be made by mail or cable. If preferred the drawer may specify that payment is to be made by prime banker's check on New York or by cable transfer.

Other Necessary Instructions.—The drawer indicates whether the drawee is to be allowed to inspect the merchandise before acceptance or payment. He also has the option of having the bank collect interest on the draft at an indicated percentage from the date of issue, in case of a "date" draft, until the approximate arrival of the covering payment in New York. He may also instruct the bank to allow the drawee interest at a certain per cent in case the

drawee wishes to make payment before due date. He also informs the bank in case the drawee has specified a certain bank to be used as the collecting bank

Letter C



TO

FOREIGN COLLECTION DEPARTMENT
THE SEABOARD NATIONAL BANK
OF THE CITY OF NEW YORK

TRACER
WE SENT YOU FOR COLLECTION

RECEIVED FROM

DATE OF ACCEPTANCE OR PAYMENT EXPECTED BY

DATE SENT

PLEASE REPORT BY OUR COLLECTION No.

SPECIAL INSTRUCTIONS
KINDLY OBSERVE INSTRUCTIONS MARKED "X"

DELIVER DOCUMENTS ON ACCEPTANCE
DELIVER DOCUMENTS ON PAYMENT
PROTEST FOR NON ACCEPTANCE
DO NOT PROTEST FOR NON ACCEPTANCE
PROTEST FOR NON PAYMENT
DO NOT PROTEST FOR NON PAYMENT
IF ACCEPTANCE REFUSED NOTIFY US BY CABLE GIVING REASON
IF ACCEPTANCE REFUSED NOTIFY US BY MAIL GIVING REASON
IF PAYMENT REFUSED NOTIFY US BY CABLE GIVING REASON
IF PAYMENT REFUSED NOTIFY US BY MAIL GIVING REASON

DESCRIPTION OF ITEM

DRAWN BY — CITY

DRAWN ON — CITY

DATE	DRAFT NO	ENDORSER'S NO	TENOR	AMOUNT

STEAMER CARRYING GOODS

QUANTITY AND COMMODITY

TRACER

KINDLY REPORT TO US BY RETURN MAIL THE PRESENT STATUS OF THIS COLLECTION

THE NEGATIVE DOCUMENTS AS DESCRIBED BELOW ARE BEING FORWARDED BY THE FIRST AND SECOND MAILS

ACCOMPANYING ORIGINAL DRAFT

BILL OF LADING	INS POLICY	INV'S	CONS INV'S	CERT'S ORIGIN	CONSULAR INV'S	BILL OF LADING	INS POLICY	INV'S	CONS INV'S	CERT'S ORIGIN	CONSULAR INV'S

AFTER COLLECTION KINDLY

IN CASE OF NEED PLEASE REFER TO

OTHER INSTRUCTIONS IF ANY:

[14]

in the drawee's city; he names the person who is empowered to sell or reship the goods in case the drawee refuses to accept or pay the draft; and indi-

cates whether charges of collection or negotiation are for account of himself or the drawee and also whether the bank may waive charges if refused by the drawee.

What the Drawer Undertakes to Guarantee.—The following copied from a bank's customer's standard instruction sheet indicates the respective liability of the bank and the drawer as agreed to over the latter's signature:

It is understood that when bills are taken for negotiation or as collateral for an advance, you may in your (the bank's) discretion:

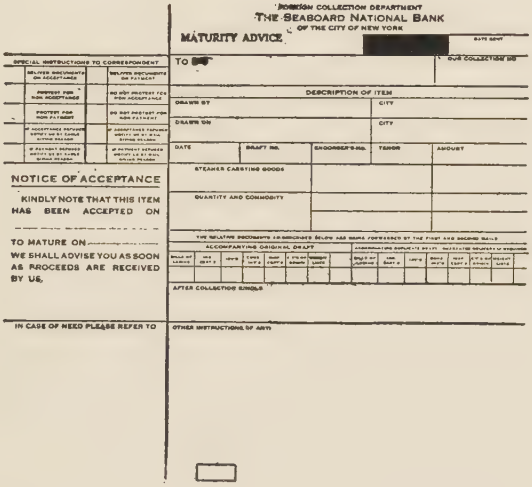
1. Request cable advice, at our expense, of non-acceptance and non-payments, notwithstanding any instructions contained herein to the contrary.

2. Instruct your agents to insure goods after arrival against loss by fire and any other risk they may be subject to, and that any expenses so incurred will be borne by us.

Bank Has Full Recourse on Drawer.—It is understood and agreed that all items are credited and all advances against items are made subject to final payment in cash or solvent credits; that you (the bank) reserve the right of charging back any items credited or holding them against the account prior to payment; that any advances made by you to the undersigned against any item for which payment in cash or solvent credits is not received by you, will be repaid to you by the undersigned upon notice of such non-payment and demand for repayment. It is further understood and agreed that you act only as agent to transmit for collection and that, having exercised due care in the selection of any correspondent to whom the above-mentioned items may be sent for collection, you shall not be responsible for the acts, defaults, neglect, omission, insolvency, bankruptcy, or noncompliance with instructions of such correspondent or agent

or sub-agent thereof; nor for loss during transmission or in the course of collection; nor for any payment until actually received by you; nor for any delay in remittance or loss in exchange; nor for any loss resulting from war, embargo, riot,

Letter D



FOREIGN COLLECTION DEPARTMENT
THE SEABOARD NATIONAL BANK
OF THE CITY OF NEW YORK

MATURITY ADVICE

SPECIAL INSTRUCTIONS TO CORRESPONDENT

DELIVER DOCUMENTS ON ACCEPTANCE | DELIVER DOCUMENTS ON PAYMENT

PROTEST FOR NON ACCEPTANCE | DO NOT PROTEST FOR NON ACCEPTANCE

PROTEST FOR NON PAYMENT | DO NOT PROTEST FOR NON PAYMENT

IF ACCEPTANCE REFUSED NOTIFY US BY CABLE GIVING REASON | IF ACCEPTANCE REFUSED NOTIFY US BY MAIL GIVING REASON

IF PAYMENT REFUSED NOTIFY US BY CABLE GIVING REASON | IF PAYMENT REFUSED NOTIFY US BY MAIL GIVING REASON

TO [redacted] | OUR COLLECTION NO.

DESCRIPTION OF ITEM

DRAWN BY | CITY

DRAWN ON | CITY

DATE | DRAFT NO. | ENDORSER'S NO. | TENOR | AMOUNT

STEAMER CARRYING GOODS

QUANTITY AND COMMODITY

THE RELATIVE DOCUMENTS OR BROKERS BILLS ARE BEING FORWARDED BY THE FIRST AND SECOND MAILS

ACCOMPANYING ORIGINAL DRAFT | ACCOMPANYING DUPLICATE DRAFT

BILLS OF LADING | INS. POLICY | OTHER | TYPE | NAME | ADDR. | ITEM NO. | AMOUNT | BILLS OF LADING | INS. POLICY | OTHER | TYPE | NAME | ADDR. | ITEM NO. | AMOUNT

AFTER COLLECTION ENDOR

NOTICE OF ACCEPTANCE

KINDLY NOTE THAT THIS ITEM HAS BEEN ACCEPTED ON

TO MATURE ON

WE SHALL ADVISE YOU AS SOON AS PROCEEDS ARE RECEIVED BY US.

IN CASE OF NEED PLEASE REFER TO | OTHER INSTRUCTIONS IF ANY

[15]

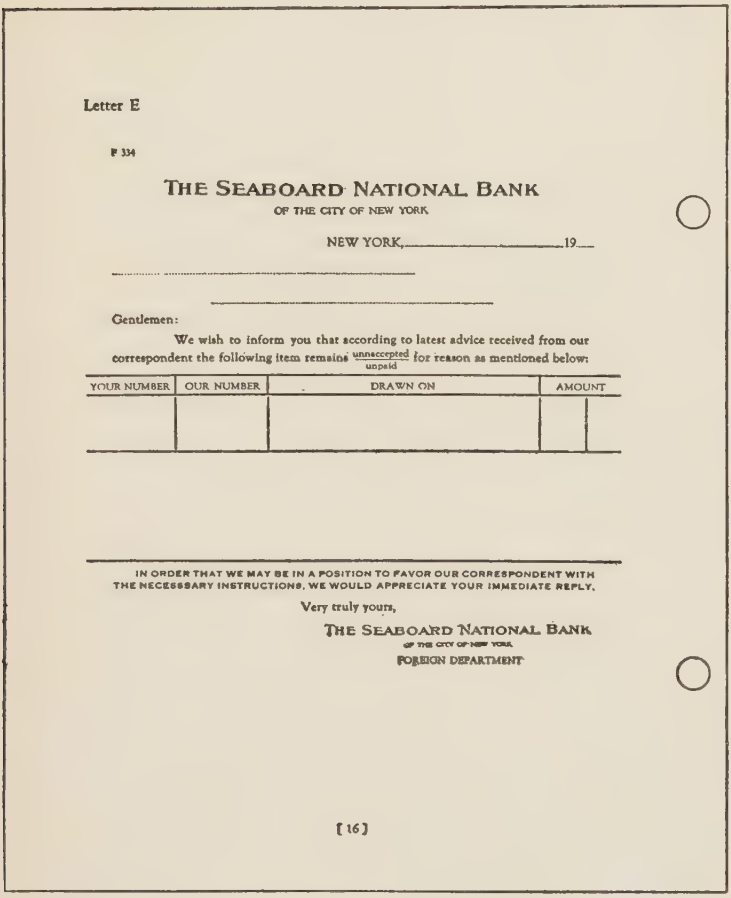
insurrection, *force majeure,* or act of God; and further, that you are authorized to transmit the above-mentioned items direct to the bank on which they are drawn, and to accept in payment check or draft of such drawee bank.

Payment of All Charges Guaranteed by Drawer.—It is further understood and agreed that any interest and any commission chargeable will be paid by us, and that any expenses, collection charges, taxes, custom duties, port entry fees, fines, storage charges or other charges, or disbursements incurred in the handling or return of this or any other items, or the documents attached thereto, or the merchandise covered thereby (including herein any sums which you or your agents or sub-agents as declarants or otherwise may be required by the laws of the country to pay, whether such payment is made at, prior to or subsequent to the time of declaration) will be for our account, and upon payment thereof by you directly or by your agents or sub-agents, we will, upon demand, reimburse you therefor, and that we will hold you, your agents or sub-agents harmless from all liability whatsoever for any such payment.

Stamp Duties.—Every country in the world, practically speaking, raises revenue by means of stamps which must be affixed when a negotiable instrument is paid or accepted. In practically all countries the scale of duties is the same whether documents are attached to a bill of exchange or not. A great many countries, however, differentiate in the stamp duties charged on checks, sight drafts, time bills, receipts, or invoices and the large banks in New York can supply details of these charges.

Time Limit.—In most countries presentation of drafts for acceptance or payment may be made during the usual business hours. Likewise in the majority of instances items which fall due on Sundays and legal holidays are payable the following day. In some countries like England bills falling due on fixed-date holidays, like Sunday, Good Friday, or

Christmas, where the drawee has advance notice, are payable the preceding day while those falling due on Bank Holidays and other unscheduled holidays



Letter E

F 334

THE SEABOARD NATIONAL BANK
OF THE CITY OF NEW YORK

NEW YORK,_____19__

_____

_____

Gentlemen:

We wish to inform you that according to latest advice received from our correspondent the following item remains unaccepted / unpaid for reason as mentioned below:

YOUR NUMBER	OUR NUMBER	DRAWN ON	AMOUNT

IN ORDER THAT WE MAY BE IN A POSITION TO FAVOR OUR CORRESPONDENT WITH THE NECESSARY INSTRUCTIONS, WE WOULD APPRECIATE YOUR IMMEDIATE REPLY.

Very truly yours,

THE SEABOARD NATIONAL BANK
OF THE CITY OF NEW YORK
FOREIGN DEPARTMENT

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are payable on the following day. In most countries documentary collections are usually presented on receipt of documents rather than on arrival of

steamer carrying merchandise and in the majority of instances one or two days are allowed drawees to

Letter F

FOREIGN CORRESPONDENT

FOREIGN COLLECTION DEPARTMENT
THE SEABOARD NATIONAL BANK
OF THE CITY OF NEW YORK
CUSTOMER'S STATEMENT

MAIL TO

SPECIAL INSTRUCTIONS TO CORRESPONDENT

DELIVER DOCUMENTS ON ACCEPTANCE | DELIVER DOCUMENTS ON PAYMENT
PROTEST FOR NON ACCEPTANCE | DO NOT PROTEST FOR NON ACCEPTANCE
PROTEST FOR NON PAYMENT | DO NOT PROTEST FOR NON PAYMENT
IF ACCEPTANCE REFUSED NOTIFY US BY MAIL / IF ACCEPTANCE REFUSED NOTIFY US BY WIRE
IF PAYMENT REFUSED NOTIFY US BY MAIL / IF PAYMENT REFUSED NOTIFY US BY WIRE

STANDING AGREEMENT

In consideration of the Seaboard National Bank of the City of New York receiving the above mentioned collection for remission, the undersigned hereby agrees that the Seaboard National Bank of the City of New York may employ such banks, bankers or correspondents as it may select through whom to collect and remit in connection with the above mentioned collection, and that the Seaboard National Bank of the City of New York shall not be responsible for the insolvency of any such banks, bankers or correspondents employed by it in connection with the above mentioned collection, and that the Seaboard National Bank of the City of New York shall not be responsible for any loss that may occur in transmission of money or documents, or for the delay or loss of mail or telegraphic or cable communications employed by it in connection with the above mentioned collection, and that the Seaboard National Bank of the City of New York shall not be responsible for any loss that may occur by reason of any cause beyond its control, and that the Seaboard National Bank of the City of New York shall not be responsible for the genuineness or validity of any document or documents which may come into its possession in connection with the above mentioned collection, and that the Seaboard National Bank of the City of New York shall not be responsible for the correctness of any translation of any document or documents which may come into its possession in connection with the above mentioned collection, and that the Seaboard National Bank of the City of New York shall not be responsible for any delay in giving notice of non-payment or non-acceptance of any draft or drafts forwarded for collection, and that the Seaboard National Bank of the City of New York shall not be responsible for any error in judgment or mistake of law or fact on the part of itself or any of its employees, except gross negligence or willful misconduct, and that the Seaboard National Bank of the City of New York shall not be responsible in any way whatsoever except for the exercise of reasonable care in the selection of correspondents, and that the Seaboard National Bank of the City of New York shall not be responsible for the default or negligence of any correspondent employed by it in connection with the above mentioned collection, and that the Seaboard National Bank of the City of New York shall not be responsible for any loss that may occur in connection with the above mentioned collection, and that the Seaboard National Bank of the City of New York shall not be responsible for any loss that may occur in connection with the above mentioned collection, and that the Seaboard National Bank of the City of New York shall not be responsible for any loss that may occur in connection with the above mentioned collection.

THE SEABOARD NATIONAL BANK
OF THE CITY OF NEW YORK

IN CASE OF NEED PLEASE REFER TO

WHEN CORRESPONDING PLEASE GIVE OUR COLLECTION No.

WE HAVE CREDITED YOUR ACCOUNT FOR PROCEEDS OF THE FOLLOWING ITEM
EXCLUSIVE OUR CHECK

DRAWN BY | CITY
DRAWN ON | CITY

DATE | DRAFT No. | ENDORSER'S No. | TENOR | AMOUNT

STEAMER CARRYING GOODS

QUANTITY AND COMMODITY

CREDIT TO YOUR A/C

THE ABOVE DOCUMENTS AS DESCRIBED BELOW ARE BEING FORWARDED AT THE RISK AND DESIRE OF OUR

ACCOMPANYING ORIGINAL DRAFT | DESCRIPTIVE DUPLICATE ONLY | INCIDENTAL DELIVERY OF MERCHANDISE

BILLS OF LADING | SHIPPING MARKS | NOS. | GOODS | VALUE | FREIGHT | INSURANCE | BILLS OF LADING | NOS. | GOODS | VALUE | FREIGHT | INSURANCE

AFTER COLLECTION REMIT

OTHER INSTRUCTIONS TO CORRESPONDENT

[17]

accept or pay, although this is a matter of custom and not of law.

Inspection of Merchandise.—In only a few countries is it customary to allow drawees to inspect merchan-

dise before acceptance or payment. The outstanding countries where the custom prevails are Ireland, Dominican Republic, Guadeloupe, Porto Rico, British Honduras, Costa Rica, Guatemala, Nicaragua, Panama, Salvador, Argentina, Uruguay, Venezuela, and Palestine.

Days of Grace.—In the majority of foreign countries the law does not provide days of grace. The outstanding exceptions are Bulgaria (1 working day), England, Canada, Scotland and Ireland (3 days), Greece (1 day), Latvia (2 days), Portugal (2 days), Haiti (1 day), Jamaica and British Honduras (3 days), Panama (2 days), Salvador (1 day), Argentina, Bolivia, Chile, and Brazil (1 day), Colombia (15 days), India (3 days on all usance bills except those of fixed date of payment), Java (1 day), Malay States (3 days), Straits Settlements (3 days), and Australia (3 days).

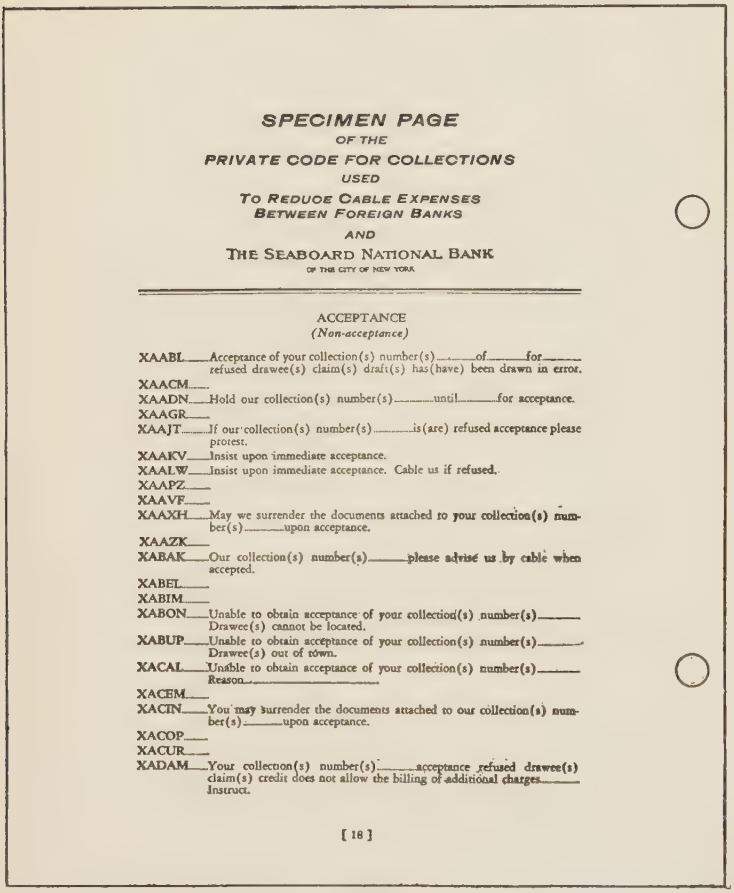
Protesting Time Limit and Fees.—As a general rule two working days is the legal time limit for protest. The outstanding exceptions are Bulgaria (1 day), England and possessions (must be "noted" within 24 hours after which protest can be made any time within 6 years), France (24 hours), Greece (1 working day), Holland (following day), Ireland (1 day), Portugal (3 days), Spain, Cuba, Porto Rico, and Philippines (following day before sunset), Turkey (same day), Russia (3 days), Canada (1 day of dishonor), Mexico (the day after maturity), British Honduras (3 days), Honduras and Panama (24 hours), Salvador (1 day), Argentina (until noon of

following day), Bolivia (until 3 P.M. following day), Brazil (following working day), Chile (before 2:45 P.M. following day), Colombia (within 15 days), Ecuador (following day), Paraguay (following noon), Peru (8 days), Uruguay (same day), Burma ("a reasonable time"), Java (1 day), Malay States (no time limit), Straits Settlements (24 hours), New Zealand (day of dishonor), Queensland (day of dishonor), and Tasmania (24 hours).

Protest fees, of course, vary with each country. A complete table of protest fees in all the important countries of the world is contained in the Appendix.

Extension of Drafts.—A merchant abroad is frequently unable to make payment on a D/P draft or to meet his obligations on a D/A draft when presented for payment or at maturity. If the merchant's reasons are legitimate and the drawer decides to extend the period of payment, he may instruct his agent or the foreign correspondent of his bank to do so. Usually under such circumstances a new draft is issued covering the period of extension but in some countries it is usual only to re-accept the outstanding draft on its face. The latter method is used in France, Portugal, Rumania, Turkey, Canada, Haiti, Porto Rico, all of Central America, Ecuador, Peru, Uruguay, Venezuela, Burma, China, French Indo-China, Malay States, Persia, Philippines, Australia, and New Zealand. In India bills of exchange cannot be extended, while in Japan an application for the extension is simply taken from the drawee.

Legal Action in Case of Non-Acceptance or Non-Payment.—In the majority of foreign countries suit cannot be brought without the item being protested



SPECIMEN PAGE
OF THE
PRIVATE CODE FOR COLLECTIONS
USED
TO REDUCE CABLE EXPENSES
BETWEEN FOREIGN BANKS
AND
THE SEABOARD NATIONAL BANK
OF THE CITY OF NEW YORK

ACCEPTANCE
(Non-acceptance)

XAABL—Acceptance of your collection(s) number(s)____of____for____ refused drawee(s) claim(s) draft(s) has(have) been drawn in error.
XAACM—
XAADN—Hold our collection(s) number(s)____until____for acceptance.
XAAGR—
XAAJT—If our collection(s) number(s)____is(are) refused acceptance please protest.
XAAKV—Insist upon immediate acceptance.
XAALW—Insist upon immediate acceptance. Cable us if refused.
XAAPZ—
XAAVF—
XAAXH—May we surrender the documents attached to your collection(s) number(s)____upon acceptance.
XAAZK—
XABAK—Our collection(s) number(s)____please advise us by cable when accepted.
XABEL—
XABIM—
XABON—Unable to obtain acceptance of your collection(s) number(s)____ Drawee(s) cannot be located.
XABUP—Unable to obtain acceptance of your collection(s) number(s)____ Drawee(s) out of town.
XACAL—Unable to obtain acceptance of your collection(s) number(s)____ Reason____
XACEM—
XACIN—You may surrender the documents attached to our collection(s) number(s)____upon acceptance.
XACOP—
XACUR—
XADAM—Your collection(s) number(s)____acceptance refused drawee(s) claim(s) credit does not allow the billing of additional charges____ Instruct.

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in case of non-acceptance or non-payment. The outstanding exceptions are Czechoslovakia, Sweden, Finland, Germany, Holland, Ireland, Norway, where

suit can be brought only against the acceptor. In Hungary, Jugoslavia, Poland, Portugal, Rumania, Spain, Canada, Mexico, Cuba, Jamaica, Dominican Republic, Porto Rico, British Honduras, Costa Rica, Honduras, Panama, Argentina, Chile, Paraguay, Peru, Uruguay, Venezuela, Burma, India, Persia, Siam, Straits Settlements, Syria, and New Zealand suit can be brought without the draft having been previously protested.

Time Limit on Legal Action.—The time limit for bringing suit for non-acceptance or non-payment varies from 1 to 30 years as noted in the table in the Appendix. In Latvia action must be taken immediately after the act of protest has been, in Palestine 15 days may elapse, while in Rumania 120 days is allowed. Burma and Siam specify "a reasonable time." In Persia and Straits Settlements there is no time limit.

Commissions Charged Abroad.—Commissions charged by foreign banks for collection of bills of exchange vary depending on whether the collection is in United States dollars or local currency. They also are slightly higher on documentary bills than on "clean bills." The commission varies from 1/20 of 1% on collections of "clean bills" drawn in United States dollars charged in Great Britain to 4/5 of 1% on the same bills charged in Iceland. The usual charge on such bills is 1/6 of 1% and on documentary bills in United States currency 1/4 of 1%. On those drawn in local currency the usual charge is 1/10 of 1% on clean bills to 1/5 of 1% on documentary bills,

with minimum charges fixed at from 30 cents to $1.15, depending on the type of bill.

Care in Drawing Drafts Eliminates Trouble.—It can be readily seen that a great many details must be kept in mind in negotiating bills of exchange drawn on foreign customers. Unless the customer's instructions are carefully followed a loop-hole is furnished through which an unscrupulous foreign customer may attempt to avoid his obligations. If due care is exercised, however, and all possible precautions taken, the drawer has a better chance in case he decides to bring a defaulting foreign customer into court. Ignorance of the law, however, excuses no one, and with the wealth of information on foreign financing technique now available in all large banks in this country, there is no excuse for such ignorance.

CHAPTER IX

Financing an Export Transaction

The real financing of any export transaction begins with the quotation, for unless the quotation is made with due consideration for the credit of the consignee, the nature of the market, and the character of the commodity, the subsequent drawing of the drafts, their presentation, and their acceptance and ultimate payment may strike a snag somewhere along the line. It would be well, therefore, to follow through a typical transaction from the moment that the quotation is made to the foreign customer until he meets his obligation in full. For this purpose we have selected a commodity in the consumer's goods category with financing carried out on the straight draft against documents plan. Let us call this commodity toothpaste, the market India, and the consignee a Parsee merchant of Bombay. Into the transaction we shall introduce all of the contingencies that might reasonably arise in the course of the transaction, not with the view of discouraging the prospective exporter from attempting any business in the Indian market, whatever, but rather to show that with a thorough knowledge of the significance of each step all along the line, the risk of serious mistakes is greatly minimized.

What to Quote and Why.—In any export catalogue or price list which you as a manufacturer of toothpaste, aspiring to sell your product in India, may put out, you will be expected to state the terms upon which you will entertain orders from those merchants in India who may wish to purchase your toothpaste. This information should state clearly *what* the prices quoted are, *how* they are to be paid, and *when* you will expect payment to be made. All these factors must be clearly stated if your offer is to be a really concrete one capable of acceptance without further correspondence back and forth, with a resulting clear-cut contract subject to the minimum amount of misinterpretation. Therefore, you must first define your prices by explaining what they represent. You have the option of quoting your prices either as the goods leave your factory warehouse door at, let us say, Pittsburgh, or as they arrive at the railroad terminal in New York, or before they are loaded on the ship, or after they are loaded on the ship at New York or finally as they leave the ship to enter the customs warehouse in Bombay. What considerations, therefore, will govern your decision as to what price to quote?

The Meaning of "F. O. B. Factory."—If you wish to quote a price on your goods as they leave your warehouse door at your factory in Pittsburgh, you will quote "F. O. B. Factory, Pittsburgh." Each word in this quotation is important and necessary. To make it perfectly grammatical the word "cars" might be inserted after "factory," although this is not es-

sential. The important facts are that the price quoted is for the goods free on board any type of conveyance that will get them to the nearest seaport most cheaply, with that conveyance beginning its journey near enough to your warehouse door in Pittsburgh as to avoid any other than ordinary loading charges such as could be carried out by your stockroom help. This is the simplest sort of export quotation imaginable for it avoids all kinds of mathematical calculations involving the figuring of the freight to seaport, the terminal charges, the marine insurance, consular invoice charges, and the ocean freight, and the distributing of this over the cost of each unit of merchandise. For this very reason when a quotation of this kind is made the position of the merchant on the other end must be taken into consideration. He probably doesn't know where Pittsburgh is. When he has located it on the map, he cannot pick up the telephone, as you can, and get a freight rate from Pittsburgh to New York. Neither the Pennsylvania nor the Baltimore and Ohio railroad has offices in Bombay. As for trucking charges from a railroad terminal in Hoboken, across New York via the Holland Tunnel and Brooklyn Bridge to a pier in Brooklyn, he has obviously little chance of knowing what this is going to cost him. He can guess at the marine insurance rate and the consular fees, and it is possible that the local office of the steampship company can give him the rate on ocean freight from Brooklyn to Bombay. Even though you insist on quoting "F. O. B. Factory" prices, therefore, you should re-

member that your Bombay customer wants a price that he can compare with local Bombay prices before he can decide whether the sample of toothpaste which you have sent him, excellent as it is, can be sold in the Bombay bazaar for the same number of *annas* as can a similar product from Germany or England. You will help him to select your product, therefore, if, when you quote "F. O. B. Factory," you give first the weight and dimensions of your export packing cases, stating how much toothpaste each contains, the freight per hundred pounds from Pittsburgh to New York on both carload and less than carload shipments, the drayage or lighterage charges per hundred pounds from railroad terminal to the dock from which steamers for Bombay usually depart, the cost of incidental but necessary services such as making up of consular invoices (none happens to be necessary for shipments to India), ocean bill of lading, etc., the marine insurance rate, and the ocean freight rate. With this information, and only with this information, is he enabled to determine from your quotation the all-essential thing to him—what is the cost of a tube of your toothpaste laid down in a customs warehouse in Bombay? Without this information he will either have to write you a letter and ask you or some one else in the United States for it, or guess at it. Most likely he will throw a quotation without it in the wastebasket.

The Meaning of "F. O. B. Cars New York."—Perhaps you will say that you will be willing to pay the freight to New York, but that, not having any office

there, you can't be bothered to find out all about terminal charges and undertake to be responsible for excessive drayage and a hundred other worries. In that event you will quote "F. O. B. cars New York," the meaning of this being that you pay the freight and that your price will be for the goods as they stand loaded on freight cars in the railroad terminal somewhere in New York or the immediate environs. The same considerations hold true, of course, as regards your Bombay customer. Even though you do not wish to take the responsibility of getting the goods on to or alongside a steamer, you should at least furnish him with accurate information as to how much it will cost him to do it.

The Significance of "F. A. S. New York."—If, after due deliberation, you decide to include all the terminal charges as well as the railroad freight in your quotation, you will then make your quotation "F. A. S. New York." Here the implication is free alongside steamer, New York, which, of course, means Greater New York, as well as the Jersey ports on the Hudson River. This quotation means that your price includes putting the packing cases in which your product is loaded within reach of the loading tackle of the steamer on which it is to sail for India. From the standpoint of your customer in Bombay this is by far the most satisfactory of three quotations so far considered. If he can get the cost of the goods accurately up to this point he has practically only insurance and ocean freight to figure, and with

accurate weight and dimensions of cases he can arrive at this with comparative ease.

What "F. O. B. Steamer New York" Implies.—Let us suppose that your goods are deposited on the wharf alongside the steamer and you make your quotation "F. A. S. New York." The owners of the steamer may suddenly decide before they begin loading that the steamer must go into drydock. Your goods must be moved to another wharf to be loaded on another steamer to sail a week hence. Who pays the extra cartage and storage charges? The Bombay merchant. You did not include in your quotation anything but the cost of placing the goods within reach of the loading tackle. You are not responsible for the vagaries of ship-owners. If your Bombay customer insists that you must be and to avoid controversy you agree that you might as well, then you will quote "F. O. B. Steamer New York," which means that your price includes seeing that the goods are lowered into the hold of the vessel.

A "C. I. F. Bombay" Quotation.—Let us look at things as they are, however. You are quoting, remember, on toothpaste; your quotation is addressed to a Parsee or native merchant; this merchant resides in Bombay. What are the chances that this bazaar merchant, squatting in his booth, lazily fingering letters in German, French, Italian, and English—letters addressed to him by manufacturers of a product almost identical with your own from a dozen or more places throughout Europe—what are the chances of his giving you the order? Remember he

has not come to the bazaar that morning on a subway train plastered with your selling appeal. He has probably never heard of it. He is "hard boiled." He discounts all that you have to say about it. He fingers your sample skeptically. All he is really interested in is how much it will cost him and whether he can offer it cheaper per tube than his rival offers a German toothpaste of the same size across the road. You are selling in a price market. Why not make your quotation so that the price stands out? It is easier for you, from your factory in Pittsburgh, to figure what the marine insurance and ocean freight on a shipment from New York to Bombay will be than for the Parsee merchant. If you do this and make your quotation "Cost, Insurance and Freight, Bombay," you will be able to place before him a price that he can readily use. He knows what the duty on toothpaste is only too well. He has had to pay it too many times. With one glance at a "C. I. F. Bombay" quotation, therefore, and a little mental arithmetic, your sample will mean much more to him than reams of figures about freight rates from Pittsburgh to New York, trucking charges through the Holland Tunnel and ocean freight rates.

Quotation Should State Manner of Payment.—Having decided what the price you are quoting represents, the next consideration is the manner in which you are going to request payment. As we have already pointed out in preceding chapters you can ask the Bombay merchant to open a letter of credit in your favor against which you can draw your draft, or

you can draw a straight draft either against payment or acceptance without asking for a letter of credit. A toothpaste order would hardly amount to enough to warrant a banker's acceptance, these seldom being drawn for less than $10,000, nor would you contemplate selling it through a finance company on the time-payment plan. It is rare that a Bombay merchant will furnish a letter of credit on a commodity of this kind. The only thing that would cause him to do so would be that your price was so much cheaper than any one's else that in order to get your agency he would be willing to furnish an irrevocable letter of credit. If, however, you have reason to believe that your prices are competitive, it would be folly to demand a letter of credit, as your European and most of your American competitors are perfectly willing to ship documents against payment or perhaps, if the merchant's credit is good, against acceptance. In this transaction I have deliberately chosen a Parsee merchant for, as a rule, they are more acceptable risks than Mohammedans or Hindus. Having investigated the Parsee's credit, it would be a comparatively simple thing to quote D/A terms, but in making up your original quotation which you may have broadcast to a dozen firms, Parsee, Mohammedan, and Hindu, you will not want to propose D/A terms. Your quotation, under such circumstances, had better be D/P, leaving the granting of D/A terms to subsequent negotiation.

Time of Payment Important Consideration.—The next thing to consider in your quotation is when you

will expect payment. As has been already pointed out, this is determined largely by the question of how long will be required for the goods, under ordinary business conditions, to find themselves in the hands of the retailer. Now, ordinarily in the Indian market, the line of demarcation between importer, jobber, wholesaler, and retailer is not nearly so sharply drawn as it is in the United States. The chances are that your Parsee importer is at the same time a jobber, a wholesaler, and a retailer. From his bazaar booth he will retail, while from his warehouse he will distribute to up-country bazaar dealers in Cawnpore and Peshawar. He may even supply other bazaar dealers in Bombay, maintaining some kind of gentleman's agreement not to undersell them to the consumer or retailer as the case may be. If he should order a hundred gross of your toothpaste, he will expect the terms of payment usual on the Bombay market which are 90 days from the date of the draft. This will give the goods 45 days to reach Bombay and will give him 45 days to dispose of them after they arrive. Your quotation will therefore contain the following: "Payment by 90 days D/P date draft."

Booking the Order.—Usually in making a quotation a code book is indicated, together with a code address, so that the merchant who wishes to cable his order may do so by use of an abbreviated message. When this message is received with no alteration in the terms you have quoted, it forms a legal contract. If alternate terms are suggested, you must

first accept them before the contract is consummated. Having received, however, a message somewhat as follows: "Your letter of the 12th ult. book 100 gross," you may assume that the conditions laid down in your quotation are satisfactory. If you maintained a branch or agent in Bombay this cabled order would undoubtedly be followed by a regular written indent on which all the terms of the transaction are specified, but as it is, you may or may not receive a confirmation of the cable together with a written order. There being nothing to the contrary indicated, you can assume that the order is for immediate shipment; but to clinch matters and also to let the Bombay merchant know that his order has been booked, you should send him a regular "Confirmation of Order" repeating all the things in your quotation after acknowledging his cable and indicating approximately when the shipment will move forward. This is essential in order that he may know that the goods are coming and when, so that he may arrange his finances accordingly. The "Confirmation of Order" is a point often overlooked even by seasoned exporters, and much misunderstanding may be avoided by it.

Documents and Draft.—At last your shipment is packed for export in stout cases properly protected against pilferage and placed on a freight car bound for New York. You will have engaged a freight forwarder in that city to whom you will send the railroad bill of lading together with three copies of your invoice. He types an ocean bill of lading getting the

case marks from your invoice (you have marked each case with the initials of the consignee and the word "Bombay"), and when the freight car with your cases arrives at the railroad terminal he arranges to have it drayed to the steamer, gets the bill of lading, pays the ocean freight, and takes out a marine insurance policy. In the meantime you have drawn a draft against the consignee in duplicate and taking it to your local bank have asked them to forward it to their New York branch or correspondent, at the same time notifying the freight forwarder that when all documents are ready he is to turn them over to the same New York bank, who will attach them to the drafts. The New York bank then discounts the draft and remits the proceeds to the local bank, who, after deducting its commission, places the proceeds to the credit of your account. Of course, if you have a New York office or agent, you can send them the draft and have them make up the documents themselves or after receiving them from the freight forwarder deposit the draft to your credit in a New York bank.

A Distress Shipment.—Your goods are now on the ocean and your money is in your local bank. Your obligation, however, has not ceased. Many things may happen between now and the time that your goods arrive safely in Bombay and your draft is paid. The steamer may sink. It may founder and your goods be tossed overboard to save it. In either event you are protected by marine insurance. Your greatest risk is not from Act of God or the Common

Enemy, which you will find are not covered by your policy, but from the acts of your very mortal consignee. Some German manufacturer may suddenly come along with a toothpaste one *anna* cheaper than yours. Unless he is a man of high standing and integrity he will order the German toothpaste and when your shipment arrives, he simply will not pay any attention to the notice from the bank. The bank waits until the draft is due, meanwhile notifying the consignee that storage in the customs warehouse is for his account, and then if he refuses to pay it, takes the action you have indicated on the instruction sheet when you discounted the draft of either selling the goods at not less than a stated minimum price, or sending them to some other market, or in extreme cases back to the United States. More commonly in a market like Bombay the bank will find a ready buyer at a satisfactory price, but at a price still, perhaps, 20% or 25% below your invoice and draft. However, the Bombay correspondent of the New York bank disposes of the goods, paying the storage charges, and sends a debit memorandum to the New York bank who transmits it to your local bank, who debits your account. If you have put the draft in for collection instead of discounting it, you will receive, under these circumstances, only 75%, more or less, of your invoice. In case the local bank has only advanced you 75% of the face value of the draft, this may be all that you receive or there may possibly be a slight debit. Many foreign correspondent banks keep their New York correspondents

informed as to the probable action of a consignee. It is the custom in most markets to pay D/P drafts before they are due, thus avoiding interest charges, and eliminating storage fees. As soon as the draft arrives, therefore, the correspondent bank will notify the consignee and receiving no reply within a reasonable time will so notify the New York bank who in turn will notify the shipper. Of course, no action can be taken until the draft is due, but in such cases the shipper has a chance to change his instructions, as he may have another order for a near-by market and it will be cheaper for him to re-ship the goods in the event that the draft is not paid, than to have the bank carry out his original instructions and sell them at less than the invoice price.

CHAPTER X

Financing and Foreign Exchange

Every export of goods by an American merchant involves a corresponding sale of an equivalent amount of foreign exchange by his bank. This is necessarily true when the very nature of the transaction is considered. When a merchant sells a bill of goods in the domestic market, the purchaser turns over to him an equivalent value in dollars which are readily acceptable to him and which he can use to pay his labor and meet his supply bills. When he sells a bill of goods abroad, however, he must either be prepared to accept an equivalent in actual foreign currency, which he could not use as legal tender in this country, or by handling the collection of his bill through a bank with a correspondent abroad, have his bank, through that correspondent, accept the foreign currency from his customer and with it purchase American dollars or an order on an American bank to transfer American dollars to the seller. This is accomplished by having some American bank, or its correspondent in the same country, possessed of dollars arising out of the importation of that country's goods into America, purchase the foreign currency which the exporter's bank has on hand and which he desires to exchange for American dollars.

This, in simple language, constitutes a foreign exchange transaction. Very often the exporter's bank itself may have American dollars abroad as a result of the sale of foreign goods in the United States. In that event it will exchange its American dollars abroad for the exporter's foreign currency, transmitting the American dollars by transfer to the American exporter and using the foreign currency to meet its obligation arising out of the sale of the foreign product in the United States.

How Exchange Rates Are Fixed.—With most countries on a gold basis, *i.e.*, keeping gold or its equivalent in their vaults to meet their note issues, the parity of exchange at which the currency of one country will be exchanged for another depends upon the amount of gold which the unit of currency of one country represents as compared with the amount represented by the other country. Thus the United States dollar contains 23.22 grains of pure gold. The English sovereign contains 113.002 grains of pure gold. Therefore 4.8665 American gold dollars are equal in value to one English sovereign and that is what is known as the mint par of exchange between the two currencies. Wherever both countries are on the gold standard the mint par is very near to the exchange rate. As a matter of fact one cannot vary from the other more than the cost of shipping gold, for if they did and sovereigns were quoted too high, persons in the United States who desired to remit to England would purchase the actual gold in the United States and ship it to England where 113.002

grains of it would always purchase a sovereign. While individual merchants are not often in a position to do this, banks and bullion dealers are always ready to ship gold whenever a rise in the exchange rate of the currency of one country with that of another, both being on the gold standard, makes it profitable to do so. Thus if an American has a large payment to make in London and the banks offer to sell him pounds sterling at $4.90 each, he could easily figure up the cost of shipping an equivalent amount of gold, including freight, insurance, and packing, and if this amounted to only 2 1/3 cents per pound sterling which he knows he can purchase in London at $4.86 2/3, he would rather ship the gold at a total cost laid down in London of $4.89 for the 113.002 grains in a pound sterling than to pay $4.90 for sterling exchange in New York.

"Pegging" and Its Effects.—At times when a foreign government feels that too much gold is leaving the country and fears that currency depreciation may result from the withdrawal, it may bring influence to bear, without direct legislation, to prevent the free movement of gold. While this was never carried to extremes by the great commercial countries of the world in the pre-war era, it was resorted to by all the countries engaged in the conflict except the United States both during the war and in the immediate post-war adjustment era. Some countries, notably Japan, still maintain a ban against the shipment of gold. The net result of such measures, which are known as "pegging" because they have the effect of

temporarily suspending the normal influences fixing the rate of exchange, is to create an excess abroad of exchangeable paper drawn in that country's currency. In other words if gold is leaving the country, it is evident that the country is either buying more goods abroad than it sells, or that the value of its services and remittances to foreign countries is not as great as the services and remittances of foreign countries to it. Its merchants and banks, not being able to ship gold to make up the deficit, must give their promises to pay, and these decline in value as long as the ban continues and they continue to accumulate. The country may still avoid the shipment of gold by a foreign loan, consolidating the promises to pay of its citizens into a national obligation. The interest and amortization on the loan demand remittances which only eventually aggravate the situation, however. The only real remedy for a drain of gold is either to cut down imports by artificial means, such as raising the import tariff, or stimulate exports by seeking out wider markets. It can also be remedied by attacking the excess of invisible imports of services and remittances. This can be accomplished by expanding the country's own services to foreigners, such as extending its merchant marine or the operations of its insurance companies, and discouraging its citizens from traveling abroad, while encouraging foreigners to visit its shores. At best the suspension of the normal workings of the machinery which fixes the exchange rate is only a temporary and aggravating measure.

Exchange and the International Price Level.—Mr. Graham F. Towers in his book *Financing Foreign Trade* (published by the Royal Bank of Canada) summarizes the relationship between exchange transactions and the price levels in different countries as follows:

Gold, acting as international money, performed invaluable service in restraining the fluctuations of exchange and furnishing a world-wide and acceptable medium in the settlement of debts between countries. In practice it was remitted in quantities absolutely large, but comparatively very small, when considered in relation to the total amount of international transactions. The true international currency was made up of bills of exchange drawn by banks or firms in one country on banks or firms in another. So long as the ordinary commercial and financial remittances which any country had to make to the other countries of the world were offset by similar remittances which other countries of the world had to make to it; that is, so long as the ordinary credits equaled the ordinary debits in the country's business transactions with the rest of the world, there was obviously no need to resort to any other means of payment, and gold was not called into play.

Now it is in the nature of business that over a period of time such debits and credits must tend to equal. Individuals cannot buy more than their resources or credit will allow, and a country being made up of the total of its individuals, the same statement holds good for it. Gold, therefore, was useful to offset seasonal inequalities in the flow of debits and credits.

The maintenance of the gold standard as between countries is of course based on the supposition that their respective price levels do not get out of line. This statement is not intended to convey that prices of all commodities and services in the one country must be identical with prices in the second country. Items that do not enter into international trade, certain arti-

cles which obtain the benefits of high protection, may command more in one country than in another. We may imagine, however, that two countries have maintained normal relations for years during a period when the price index of the first country was 105, while that of the second was 100. Should currency inflation in the first country raise the index to 115, it becomes a good country to sell in, a poor country to buy in, its foreign business is dislocated, its debits and credits in international trade are put out of line in more than a seasonal way, and the drain on its gold which then takes place must either be allowed to have the natural effect of restricting credit and bringing down prices to a normal level, or else that country must abandon the gold standard and correct its price relations with other countries by allowing its exchange to go to a discount. The maintenance of a gold standard then involves the keeping of a country's price level in its normal relation to the price levels of other gold standard countries.

We find that a gold standard country will usually undergo the sometimes severe hardship of credit deflation rather than take the initial step of suspending gold payments. Once this step has been taken, however, and the monetary standard becomes one of inconvertible paper, there is a great temptation to take the easy road, and to allow the currency to depreciate rather than to cease inflation or commence deflation, when the price level and exchange situation demand it.

The Exchange Market.—Because of the extent of, and large amounts involved in, the transactions effected in foreign exchange, the market centers in New York and London. In these places alone is located the money supply indispensable to large operations. The transactions, of which there are thousands each day in both cities, are not recorded on a tape as in the case of the purchase and sale of stock on the Stock Exchange. As most bills of exchange

are sold to banks or trust companies, it is these institutions rather than the individuals, as in the case of the Stock Exchange, who buy and sell bills of exchange, thus establishing a market and fixing prices of foreign currencies in terms of United States dollars by the laws of supply and demand. The intermediaries are the exchange brokers who make it a business to know who has bills of exchange to sell and who wishes to buy them. By having the transaction pass through their hands they earn a small commission. So smooth is the operation of the system that except in times of abnormal stress, the quotations do not vary, but maintain all the stability of those of the stock exchange.

Why Exchange Quotations Vary.—Four kinds of quotations are usually current on the exchange market. The sight or demand rate is usually expressed as the amount a broker or bank will pay in dollars for a sight draft on a given foreign market. This is payable when the draft reaches the foreign market. The cable rate is the amount in dollars that must be paid for the corresponding unit of foreign currency by telegraph; *i.e.,* how many dollars, for example, it would take to make available a pound sterling in London by means of a telegraphic transfer of funds from the New York bank to the London bank. The commercial 60-day rate is the amount that banks in New York, for example, will pay for prime commercial bills drawn on London at 60 days sight and which would be payable 63 days (including 3 days of grace) after the bill has been received in England,

presented and accepted. The commercial 90-day rate would be the same thing for bills drawn at 90 days sight. These rates fluctuate in unison as the supply and demand for their particular type of paper varies, the difference between them being dictated by the rate of interest prevailing at the point on which they are drawn. Thus cable transfers are usually quoted at the highest rate because the funds must be made available on the same day abroad. A sight or demand draft, however, will not disturb the banker's balance abroad for the length of time required for the mail to reach the point on which the draft is drawn. He can therefore afford to sell the demand draft for as much less as these interest earnings amount to. So the rates quoted in New York on 30-, 60-, and 90-day bills on any foreign market are each proportionately as much cheaper than cable rates as the interest rate dictates.

How Quotations Remain Relatively Stable.—If a large supply of any one type of exchange is received in any given market resulting in a price decline for that particular type of exchange, all the other types will fluctuate in unison. This is readily understood when the working of the acceptance market is considered. It would be a comparatively simple matter, for example, to buy 90-day drafts that had declined and sell demand drafts against them. In this way the heavy demand for 90-day drafts which many exchange dealers and banks would buy, provided they were offered at a price lower than the price of de-

mand drafts plus interest for the 93 days, would soon force them into line either by forcing up their price or depressing the price of drafts of other tenor. Whichever direction the corrective movement took would depend upon the relative strength or supply of 90-day drafts as compared with that of the other types of drafts.

Arbitrage Transactions.—For the same general reason quotations of rates of exchange of any particular foreign currency cannot get too far out of line as between any two centers where transactions in them are carried on. If they do, exchange dealers in one city will sell the currency in the high market and buy it up in the cheaper market. Such transactions are known as arbitrage transactions. A practical example of an arbitrage transaction carried out at pre-war rates is cited by G. F. Towers in *Financing Foreign Trade,* published by the Royal Bank of Canada:

A PRE-WAR ARBITRAGE TRANSACTION

December 1st

Sterling in Paris .....Fcs. 25.22 to the £
Sterling Cables in New York .....$4.85 to the £
Franc Cables in New York .....19 cents to the franc.

(After decline)

At the above rates, a New York banker could sell a cable transfer on London for £1,000 and receive for it $4,850. With that $4,850, he could buy a cable transfer for 25,526 francs at the rate of 19 cents to the franc. His correspondent in Paris, on receipt of the cable, would turn it into sterling at the rate of 25.22 francs to the pound, realizing from the 25,526 francs something over £1,012. Our New York banker would thus be

able to cover the sterling cable he had sold, pay commission charges, and have a good profit left. The rate we have quoted for francs is exaggeratedly low. In practice, a smaller margin of profit would have attracted heavy buying of francs and selling of sterling, bringing the former rate up, the latter down. The volume in which the business would be done, would make the profit attractive.

Spread Between Bankers' and Commercial Bill Quotations.—The principal business of the banker doing a foreign business is to buy commercial bills and sell his own bills, drawn on foreign branches or correspondents, against them. His profit comes in keeping his quotations, or buying rate for commercial bills, lower than the price at which he can sell bills of like tenor drawn on his foreign branches or correspondents. In buying commercial bills, however, the banker accepts a risk. This is generally reflected in the lower rates offered for commercial bills drawn by firms who are moderately rated, as compared with those offered for bills drawn by firms of high rating. It is also reflected in a similar manner by the rating of the drawee and by the value of the merchandise offered as security. The time the commercial bill has to run is also a factor, and "short-term" bills, or those running for 30 days or less, are usually quoted at higher rates than "long-term" bills running for periods of over 30 days. It is because of the risks accepted by the banker when he purchases a commercial bill and sells his own bill against it, that he maintains a "Buying rate" and a "Selling rate" for the bills he handles.

Transactions in Future Exchange.—Where an exporter has contracted to make shipments at some future date he knows that at that time he will have exchange to sell. He may have sold his product at a price quoted c.i.f. in some foreign currency. Between the date of sale and the date when the shipment will be on board the steamer and the documents will be available for financing, the rate of exchange of the foreign currency may decline. He would, therefore, suffer a loss as his quoted price will have been figured on the assumption that a given number of francs would buy more dollars, let us say, than the declining rate on francs at the time of actual shipment will realize. In order to protect himself against such a contingency, he will contract with a bank at the date of sale to sell it his bills of exchange to be drawn at some future date, at a forward rate, not necessarily the same as the bank's current rate, but definitely fixed so that he may figure on the rate at which he may convert his francs into dollars in making his c.i.f. franc quotation without fear of loss due to a subsequent decline in rate. The bank in turn will sell a like amount of its own bills drawn against its foreign branch or correspondent, knowing that it has covered the transaction by the future purchase, its buying rate for the future being priced lower than its selling rate so as to insure a profit. The exporter, of course, should always sell his exchange at "seller's option" and buy it at "buyer's option." Otherwise he may be called upon to deliver or receive the forward exchange at an inopportune

time. Thus in addition to the facilities offered to exporters of certain commodities, which have a future market, of hedging in the sale of his commodity to avoid speculation, is the added facility available to exporters of all commodities to protect themselves against a decline in foreign exchange through the future sale of their dollar exchange.

Conclusion.—A foreign exchange transaction being involved whenever a foreign sale is consummated, the exporter, even though his quotations are in American currency, is intimately concerned with the fluctuations of exchange, and should be familiar with the underlying principles which govern them. While the exchange rates on most countries are now more or less stabilized, extra-legal means are still resorted to by some countries to establish conditions of artificiality surrounding the value of its currency in terms of a given foreign currency, which eventually react unfavorably to all those dealing in the two currencies. For purposes of foreign trade, the less fluctuation there is in exchange rates the better. The normal volume of merchandise movement, coupled with the invisible items which tend to create exchange transactions, tend to stabilize exchange rates if allowed to work unimpeded. Thus if a country is exporting more in goods and services than it imports, its exchange will gradually go to a premium, and if it imports more of these than it exports, its exchange will be quoted at a discount. By making loans abroad and thus creating a demand for its exchange in the subsequent remittance of the pro-

ceeds, the effect of the normal adverse factors may be checked. Eventually, however, a declining exchange rate means either that exports of goods and services will have to be increased, or that imports will have to be decreased. Otherwise, exchange will drop so low in value as compared with other currencies that the purchasing power of the people from abroad will be reduced to a point where even essential imported commodities can only be had at prohibitive prices. Normally such a situation will tend to correct itself by reducing imports, while the exports will be stimulated by the low prices at which the country's products can be quoted abroad. Foreign exchange, therefore, inasmuch as it acts as a barometer of the national economic health, is an excellent medium through which to judge future trends in the demand for imported goods.

CHAPTER XI

Documents in Export Financing

The documents which cover an export shipment must accompany a documentary bill of exchange whether it be discounted or accepted. In the latter event responsibility for the accuracy of the documents lies with the bank, and if the consignee refuses to pay the face value of the invoice because the documents are not in order, the bank has no recourse against the drawer once it has accepted the draft. The expeditious handling of the documents is also highly important, for shipments made on a "to order" bill of lading cannot be released until the documents arrive, and in some countries heavy charges are incurred as a result. Inaccuracy or carelessness in drawing up documents also imposes fines upon consignees and causes much unpleasantness.

The necessary documents in every case are ocean bill of lading, marine insurance policy, and commercial invoice. Most countries require that the consular representative in the country of origin issue in addition a consular invoice. In certain other cases a certificate of origin is required. In the case of the shipment of certain vegetable and animal products, moreover, a certificate from competent authorities as to the condition of the product is required. In

certain particular cases packing lists are necessary covering the detailed contents of each case. These documents are usually made up in triplicate or quadruplicate, one set accompanying the original draft and another accompanying the duplicate which is usually sent by the next mail to avoid delay in case the original set is lost. In some countries bills of lading must be presented in duplicate or triplicate before the Customs will release the goods, in which event only one copy is negotiable, as a rule.

Ocean Bills of Lading—"To Order—Notify."—When a shipment for abroad has been loaded into the hold of the ocean-going vessel the steamship company gives a receipt to the shipper. The document, which is known as an ocean bill of lading, is also a contract between the carrier and the shipper. The terms of the contract are printed in full on the first page of the document, a specimen of which is herewith inserted, and on the reverse side are blank spaces in which are inserted the name of the shipper, the destination of the goods, the name of the vessel, and the expected date of sailing. There is also a space to indicate to whose order the shipment is consigned, followed, by the words "or assigns" which makes the document negotiable. In other words by making the shipment to his own order and then endorsing it, the shipper empowers the carrier to turn the goods over to any holder. Therefore, when such a bill of lading is delivered to a bank attached to a draft, the bank becomes the technical owner of the goods. There is also a blank space on which may be indi-

cated the name of the person who is to be notified. This is added for the convenience of all the parties

TRAF-8

Receipt No. 647

UNITED STATES LINES
AMERICAN MERCHANT LINES
UNITED STATES LINES OPERATIONS, INC.
45 BROADWAY

New York, N. Y. Oct. 29th 1929

RECEIVED *from* U.S.Forwarding Co.

For Account of American Toothpaste Co. **as the shipper for**

Shipment by S/S "America" **for** Bombay

the Carrier reserving the right to ship said goods in whole or in part in or upon a prior or subsequent steamer.

Said goods are received subject to delay and default in shipment caused by accummulation of other goods, riots, strikes, labor disturbances, lack of conveyances, room or facilities of any sort and the like. The Company's regular bill of lading in use by it for similar shipments shall be issued for said goods to the above named shipper. Neither the company nor the vessel on which the goods are subsequently loaded shall become responsible for the goods as carrier until actually loaded. Until such loading the Company shall be liable for loss or damage only as licensor or bailee and entitled to the benefit of the terms, conditions, exceptions and limitations of liability and value contained in said regular bill of lading with which shippers are understood to have acquainted themselves. It is mutually agreed that unless a higher value be stated herein and in the engagement note and declared in the engagement note to be the basis of adjustment of freight, the value of any package herein receipted for shall not be deemed to exceed $250.00 or the invoice cost, whichever shall be least.

Shipper's Marks, Numbers and Description

Marks and Numbers	No. of Packages	Kind of Packages	Description of Articles
A.T.C. BOMBAY #110	50	cases	Toothpaste in tubes and cartons

ORIGINAL

Total Measurement 1200 **Cu. Ft. Total Gross Weight** 2020 **lbs.**

Shippers are requested to fill measurement and weight detail on reverse side.

NOTICE TO SHIPPER

1. Shipping Marks, Numbers and Port of Destination must be marked on each package.
2. These goods while on Dock are at the risk of the shipper, or owner, for loss or damage by fire, flood or other causes beyond our control. Shipper should include the risk in their policies of insurance.
3. A separate Dock Receipt must be obtained for each delivery.
4. Bills of Lading and Export Declaration must be presented to freight office not later than one day before sailing.
5. Shipper's weights as inserted herein will be relied on in handling the goods, and if incorrect, shipper and/or consignee shall be responsible for any loss or damage to carrier or others resulting therefrom.
6. Shippers are requested to insert detailed measurements which will enable us to verify correctness of same and avoid all disputes. Total weight for one shipment is sufficient except if any one package weighs 4,480 lbs. or over, then weight must be mentioned separately.
7. Attention of Shippers is called to Sec. 235 of the Criminal Code of the United States (Act of Congress, March 4, 1909).

UNITED STATES LINES
AMERICAN MERCHANT LINES
UNITED STATES LINES OPERATIONS, INC.

Receiving Clerk.

DOCK RECEIPT

so that the bank may know whom to notify that the goods have arrived, thus avoiding storage charges

at destination. Laws in various foreign countries differ on the point of whether the person who is

Lighter ..... Started Date Oct. 28th, 1929
Car No... C-85689 ..... Finished Date Oct. 28th, 1929
Truck ..... Location Tier H

SHIPPERS ARE REQUESTED TO FILL OUT AS BELOW

MARKS	No. of Pkge.	MEASUREMENTS						Total Cubic Ft.		Gross Weight
		LENGTH		Breadth		Depth				
		Ft.	In.	Ft.	In.	Ft.	In.	Ft.	In.	
A.T.C. BOMBAY	50	6	0	2	0	2	0	1200	0	2020 lbs.

countries he can. In other countries he may only secure the shipment, if the bill of lading has not arrived, on a banker's guarantee ordering the carrier to deliver the goods without the bill of lading and guaranteeing to produce it on arrival.

"Straight" Ocean Bills of Lading.—If in the space indicating to whose order the shipment is consigned, the shipper inserts the name of some party at the port of destination, the bill of lading becomes a "straight" bill of lading. Under such an arrangement the goods can be obtained only by the consignee or his designated representative. The "straight" bill of lading is not easily negotiable until it reaches destination and can be assigned by the consignee to another party. It, therefore, is difficult to use it as security for drafts which are to be discounted. Order bills of lading, on the other hand, when endorsed in blank, carry title to the goods and if lost may be presented by the finder who legally obtains possession of the goods. For this reason, the custom has arisen of making a "straight" bill of lading to the order of the bank negotiating the draft, who makes it negotiable by endorsement in blank. This places the responsibility on the bank or its foreign correspondent if the bill of lading is lost in transit. The bank negotiating the draft may, by endorsing a "straight" bill of lading, made out to its order, in favor of its correspondent, render it non-negotiable by bearer. In some countries of Latin America, however, such a procedure renders the correspondent bank liable for customs duties, fines, and storage charges and is con-

sequently not looked upon with favor by banks generally. The negotiability of a bill of lading being the determining factor in its usefulness as security against a draft, most ocean bills of lading are made out to shipper's order and endorsed in blank.

"Received for Shipment" Bills of Lading.—While a bill of lading, as its name signifies, is a receipt for goods loaded on to a vessel, some carriers use a variation of the heretofore universal phrase "Shipped in good order and condition," such as "Received for shipment," "Received on dock," or "Received from . . . to be shipped on board . . ." When the wording of a letter of credit is not specific in instructing the bank to honor a draft only against goods that have been loaded on to the vessel before the date of expiry, the question often arises whether a bill of lading dated before the expiration but indicating only that the goods have been "Received for shipment" is valid security, provided the vessel actually sails or the goods are actually loaded after the expiry date. Unless the letter of credit is specific on this point the bank must accept the date of the bill of lading, indicating that the goods have only been "Received for shipment," as the actual date of shipment.

Marine Insurance Policies.—The liability of the steamship company is limited only to damage caused by negligence in loading, in stowage, or in proper delivery of cargo. It is not responsible for the negligence of the crew or for loss of cargo through sinking of the vessel or for any of a number of usual things

that might damage or destroy the goods which it has received for shipment. These, it can be seen, it absolves itself from when it signs the receipt for the goods or the bill of lading. It has devolved upon the owners of ocean-going shipments, therefore, to provide necessary insurance against such losses before the banks will discount their drafts covering such shipments. This is done by taking out a marine insurance policy that must accompany the bill of lading to protect the owner of the goods, which in the case of a shipper's order bill of lading endorsed in blank, would be the bearer of the bill of lading, from loss. In lieu of the actual marine insurance policy, a certificate issued under such a policy or some other evidence that the shipment is covered by insurance, may accompany the bill of lading. As in the case of bills of lading, marine insurance policies are usually made out to order of shippers or drawers as beneficiaries and are endorsed by them in blank, so that they become payable to the holder. The amount of marine insurance usually covers cost of the goods, freight, both inland and ocean, and the drayage and other charges as well as a reasonable profit. The ordinary marine insurance policy covers the goods only from the time the goods are loaded into the hold of the vessel until they are discharged upon the wharf at destination. By the payment of extra premiums, however, the goods can be insured against all of the ordinary risks from the time the goods leave the factory warehouse until they reach the warehouse of the consignee at the port of destina-

FOREIGN MARINE POLICY

INSURANCE COMPANY OF NORTH AMERICA

PHILADELPHIA

INCORPORATED A. D. 1794

$ $500.00 No.

(PLACE AND DATE) New York, N.Y.

The INSURANCE COMPANY OF NORTH AMERICA in consideration of a premium as agreed and subject to the Conditions and Warranties specified herein and/or attached hereto, does by this Policy insure American Toothpaste Co.

as well in his or their own name as in that of those to whomsoever the subject matter of this Policy does or shall appertain, in the sum of $500.00

upon toothpaste

valued at $500.00

laden (under deck) on board the ship or vessel called the S.S."America"

(lost or not lost) at and from interior points or point via New York

MARKS AND NUMBERS

A.T.C.
BALEY
#110/50

SPECIAL CLAUSES

Warranted not to cover the interest of any partnership, corporation, association or person, insurance for whose account would be contrary to the trading with the Enemy Acts, or other statutes or prohibitions of the United States.

ALL CLAUSES ABOVE TAKE PRECEDENCE OVER THE FOLLOWING IF IN CONFLICT THEREWITH.

BEGINNING the adventure upon the said goods and merchandises, from and immediately following the loading thereof on board the said vessel, at the aforesaid place, and upon the said conveyance until the said goods and merchandises shall be safely landed as aforesaid. AND it shall and may be lawful for the said vessel, in her voyage, to proceed and sail to, touch and stay at, any ports or places, if deemed necessary by reason of weather, or other unavoidable accident, without prejudice to the insurance.

AND in case of any loss or misfortune which the said INSURANCE COMPANY OF NORTH AMERICA is contained to bear, and taken upon account in this voyage, they are of the sense, first, foremost, meant, assuring thereto, persuaded, hereupon of the assurance and warranty, unless the assured on cargo be or part owner of the vessel, and all other perils, losses and misfortunes which or damages to the said goods and merchandises, or any part of them, that shall come to the hurt, detriment, or damage of the said goods and merchandises, or any part of them.

AND in case of any loss or misfortune it shall be lawful and necessary to and for the assured, his or their factors, servants and assigns to sue, labor and travel for, in and about the defense, safeguard and recovery of the said goods and merchandises, or any part thereof, without prejudice to this insurance; and that all charges so the assured or assigns, in recovering, saving and preserving the property insured, in case of casualty be considered a warranty or an acceptance or abandonment to the charges whereof the said Insurance Company will contribute according to the rate and quantity of the sum herein insured.

AND IT IS AGREED, that no acceptance of abandonment shall be made or claimed by the assured in case any intelligence be received, or report be made of the arrest, detention, loss or damage of the said goods and merchandises, or any part thereof, by reason of any illegal trade or violation of any custom or revenue laws, or by reason of any seizure, restraint or detainment made or to be made by any king, prince or state, or of any person pretending to have authority from any king, prince or state, or by reason of any claim of any foreign or domestic consul, or any other claim whatsoever, which may be made upon the said goods and merchandises, or any part thereof, but that the assured may prosecute his claim for such loss or damage, notwithstanding any such arrest, detention, loss or damage, and that the same shall not be deemed a technical abandonment of the said goods and merchandises, or any part thereof, but a bona fide transaction entitling the assured to claim for a total loss, if the circumstances of the case will warrant such claim.

AND IT IS AGREED, that no acceptance of abandonment shall be made or claimed by the assured in case any intelligence be received, or report be made of the capture of the said goods and merchandises, or any part thereof, by reason of any illegal trade or violation of any custom or revenue laws, or by reason of any seizure, restraint or detainment made or to be made by any king, prince or state, or of any person pretending to have authority from any king, prince or state, or by reason of any claim of any foreign or domestic consul, or any other claim whatsoever, which may be made upon the said goods and merchandises, or any part thereof, but that the assured may prosecute his claim for such capture, notwithstanding any such capture, detention, loss or damage, and that the same shall not be deemed a technical abandonment of the said goods and merchandises, or any part thereof, but a bona fide transaction entitling the assured to claim for a total loss, if the circumstances of the case will warrant such claim.

AND IT IS AGREED, that no acceptance of abandonment shall be made or claimed by the assured in case any intelligence be received, or report be made of the blockade, seizure, detention, loss or damage of the said goods and merchandises, or any part thereof, by reason of any blockade, or by reason of any seizure, restraint or detainment made or to be made by any king, prince or state, or of any person pretending to have authority from any king, prince or state, or by reason of any claim of any foreign or domestic consul, or any other claim whatsoever, which may be made upon the said goods and merchandises, or any part thereof, but that the assured may prosecute his claim for such blockade, seizure, detention, loss or damage, notwithstanding any such blockade, seizure, detention, loss or damage, and that the same shall not be deemed a technical abandonment of the said goods and merchandises, or any part thereof, but a bona fide transaction entitling the assured to claim for a total loss, if the circumstances of the case will warrant such claim.

AND IT IS AGREED, that no acceptance of abandonment shall be made or claimed by the assured in case any intelligence be received, or report be made of the detention, loss or damage of the said goods and merchandises, or any part thereof, by reason of any illegal trade or violation of any custom or revenue laws, or by reason of any seizure, restraint or detainment made or to be made by any king, prince or state, or of any person pretending to have authority from any king, prince or state, or by reason of any claim of any foreign or domestic consul, or any other claim whatsoever, which may be made upon the said goods and merchandises, or any part thereof, but that the assured may prosecute his claim for such detention, loss or damage, notwithstanding any such detention, loss or damage, and that the same shall not be deemed a technical abandonment of the said goods and merchandises, or any part thereof, but a bona fide transaction entitling the assured to claim for a total loss, if the circumstances of the case will warrant such claim.

AND IT IS AGREED, that no acceptance of abandonment shall be made or claimed by the assured in case any intelligence be received, or report be made of the seizure, detention, loss or damage of the said goods and merchandises, or any part thereof, by reason of any illegal trade or violation of any custom or revenue laws, or by reason of any seizure, restraint or detainment made or to be made by any king, prince or state, or of any person pretending to have authority from any king, prince or state, or by reason of any claim of any foreign or domestic consul, or any other claim whatsoever, which may be made upon the said goods and merchandises, or any part thereof, but that the assured may prosecute his claim for such seizure, detention, loss or damage, notwithstanding any such seizure, detention, loss or damage, and that the same shall not be deemed a technical abandonment of the said goods and merchandises, or any part thereof, but a bona fide transaction entitling the assured to claim for a total loss, if the circumstances of the case will warrant such claim.

AND IT IS AGREED, that no acceptance of abandonment shall be made or claimed by the assured in case any intelligence be received, or report be made of the capture, seizure, detention, loss or damage of the said goods and merchandises, or any part thereof, by reason of any illegal trade or violation of any custom or revenue laws, or by reason of any seizure, restraint or detainment made or to be made by any king, prince or state, or of any person pretending to have authority from any king, prince or state, or by reason of any claim of any foreign or domestic consul, or any other claim whatsoever, which may be made upon the said goods and merchandises, or any part thereof, but that the assured may prosecute his claim for such capture, seizure, detention, loss or damage, notwithstanding any such capture, seizure, detention, loss or damage, and that the same shall not be deemed a technical abandonment of the said goods and merchandises, or any part thereof, but a bona fide transaction entitling the assured to claim for a total loss, if the circumstances of the case will warrant such claim.

AND IT IS AGREED, that no acceptance of abandonment shall be made or claimed by the assured in case any intelligence be received, or report be made of the blockade, capture, seizure, detention, loss or damage of the said goods and merchandises, or any part thereof, by reason of any illegal trade or violation of any custom or revenue laws, or by reason of any seizure, restraint or detainment made or to be made by any king, prince or state, or of any person pretending to have authority from any king, prince or state, or by reason of any claim of any foreign or domestic consul, or any other claim whatsoever, which may be made upon the said goods and merchandises, or any part thereof, but that the assured may prosecute his claim for such blockade, capture, seizure, detention, loss or damage, notwithstanding any such blockade, capture, seizure, detention, loss or damage, and that the same shall not be deemed a technical abandonment of the said goods and merchandises, or any part thereof, but a bona fide transaction entitling the assured to claim for a total loss, if the circumstances of the case will warrant such claim.

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tion. Insurance can also be taken against such special risks as pilferage by ship's crew or passengers, particular average, delay, ordinary wear and tear, leakage, breakage, inherent vice or nature of the goods themselves, perils of the sea, war, and other risks not covered by the ordinary marine insurance policy. It is customary to add these various clauses by attaching printed clauses pasted to the policy. On marine insurance policies covering goods destined for Brazil and River Plate ports where losses subsequent to landing are unusually heavy, the "River Plate Clause" usually specifies that "the risk under this policy shall cease upon arrival at any shed (transit or otherwise), store, customhouse, or warehouse, or upon expiry of 10 days subsequent to landing, whichever may first occur." A policy is modified first by such clauses when they are printed and pasted to the policy, then by written or typewritten portions of the policy, and finally by such slips as are pinned to the policy. In case a voyage is extended or the usual course deviated from, the policy must be so modified upon request of the insured as soon as the deviation or extension is learned of.

Particular and General Average.—When a cargo is damaged by the sea it is termed "average" in marine insurance parlance. The ordinary policy excludes claims for average on certain classes of goods such as grain, but under special arrangement such goods may be insured for almost their total value. Under such circumstances a clause to the effect that the goods are "free of particular average under —%" indicates

that they are insured up to that per cent against the stated risks. "Free of particular average (English conditions)" means that no loss for partial loss or damage will be allowed unless the vessel, craft, or lighter carrying the goods be burnt, stranded, sunk, or in collision. "Free of particular average (American conditions)" indicates that no loss will be allowed unless *the loss or damage is caused by* the same contingencies. When cargo is sacrificed or expense incurred for the preservation of the ship all shippers contribute equally to the loss regardless of whose cargo may have suffered. This is termed "general average." It will be noticed that under the terms of the bill of lading the carrier retains a lien upon the goods of all the shippers under such circumstances until the assessment can be figured and it is paid by each shipper pro rata.

Open Policies.—Most marine insurance companies now arrange with shippers to issue blanket or open policies insuring their goods from factory of the shipper to warehouse of the consignee. Under this arrangement the shipper reports all shipments to the insurance company on a form of certificate as per the attached specimen, countersigning them as they are used and paying the premiums on all shipments reported at the end of the month in accordance with the schedule of rates attached to the policy. Under English court decisions a certificate of insurance may not be substituted for a policy when a policy is specifically called for by a letter of credit. Therefore, the buyer who opens the letter of credit, if he

trusts the seller, should permit him the choice of furnishing either a policy or a certificate issued under an open policy. The risk he takes, of course, is that the seller may avoid the expense of the premium by issuing a pseudo certificate, which in case of loss would leave the goods uninsured.

Consular Invoices.—Not all countries require consular invoices, but those countries that do, impose heavy fines upon consignees if the documents arrive without one when it is required by law. A consular invoice is supposed to be an exact statement of the various items in the shipment at the price at which they were sold. This is necessary for the purpose of levying duties at destination. At the same time a study of the various foreign customs tariffs will enable the shipper to designate his goods in such a way as to cause them to be assessed at the proper rate without incurring fines for misrepresentation. Consular invoices require that the shipper give his name, the vessel, consignee, and port of destination. The mark number and weight of each package, with a description of how they are packed, *i.e.*, whether in cases, bales, boxes, barrels, etc., together with a description of the goods, the component materials, the gross and net weight (usually in kilograms for metric system countries) of each package, the price, and total value.

Commercial Invoices.—Commercial invoices, often in duplicate for each set of documents, must contain practically the same information contained in the consular invoice. Trade abbreviations should be

CERTIFICATE OF INSURANCE

Insurance Company of North America

PHILADELPHIA

INCORPORATED A. D. 1794

$ 500.00 No. 4588

(PLACE AND DATE) New York, N.Y. Nov. 1st, 1929

This is to Certify, That on Oct. 29th, 1929 this Company insured, under Policy made for AMERICAN TOOTHPASTE CO.

for TEN THOUSAND Dollars

on toothpaste

valued at $500.00

shipped on board of the S.S. "AMERICA"

at and from interior points or point via New York

to foreign port direct or otherwise

It is hereby understood and agreed that, case of loss, such loss is payable to the order of American Toothpaste Co. on surrender of this Certificate, which conveys all the rights of the Original Policy-holder (for the purpose of collecting any claims for loss or damage), as fully as if the property were covered by a special policy direct to the holder hereof, and free from any liability for unpaid premiums.

FIRST COPY NEGOTIABLE

Not valid unless Countersigned

by Platt, Fuller & Co.

Benjamin Rush
President

Countersigned,
MANAGER

IT IS ESPECIALLY AGREED, that all claims for loss or damage under this Certificate shall be submitted for approval to one of the Representatives, as per list on back of this Certificate, to whom immediate notice of any casualty must be given. If there be no Agent of the Company at or near where such proofs are taken, then such notice shall be given to the correspondent of the Board of Underwriters of New York. If neither is represented, then to Lloyds Agent.

Claims are to be adjusted according to the usage at Lloyds, but subject to the conditions of the policy.

Messrs. W. K. WEBSTER & CO., London, England, are the attorneys of the Company, on whom service of process can be made.

It is understood that the Claims Agents are only to intervene for the purpose of ascertaining the nature, cause and extent of the damage and that they cannot be cited in any legal proceedings, the Insurance Company acknowledging only the competence of the American and English Tribunals.

Notice. To conform with the Revenue Laws of Great Britain, in order to collect a claim under this Certificate, it must be stamped within ten days after its receipt in the United Kingdom.

MARKS AND NUMBERS

A.T.C.
BOMBAY
#110/50

CLAUSES

Warranted free of Capture, Seizure or Detention as per policy.

Warranted by the assured free of loss or damage caused by strikers, locked-out workmen or persons taking part in labor disturbances or riots or civil commotion.

Including risk of craft to and from the vessel, each lighter or craft to be considered as if separately insured and to pay for total loss of any package or package whilst loading, transhipping or discharging. The assured to be held covered by any agreement exempting lighterman from liability.

Warranted that this insurance does not inure to the benefit of any carrier or bailee.

This insurance to attach and shall not inure to the benefit of any carrier, bailee, being at the risk of the assured, in any store, warehouse or ferry-boat, or on any wharf or quay (whether at interior place or places or at the seaboard) and cover continuously thereafter in due course of transit until safely delivered into store, warehouse or factory at final place of destination. This insurance covers during inland transportation and whilst awaiting shipment, transhipment, reshipment and delivery, including risk while on docks wharves, quays, or in lighters, and in Appraiser's store and/or Custom House for examination; but does not cover in any other store or warehouse, provided, nevertheless, that on all Shipments to River Plate Ports, the risk of fire under this policy shall cease upon arrival at any shed (transit or otherwise), store, custom house, warehouse, or upon the expiry of ten days subsequent to landing, whichever may first occur.

This policy shall not be vitiated by any unintentional error in description of voyage or interest, or by deviation, provided the same be communicated to insurers as soon as known to the assured, and an additional premium paid if required; but it is understood and agreed that this clause does not in any way cover the risk of war, riot and/or civil commotion, or prejudice the printed wording of the policy excluding risks of this nature.

The liberties as per contract of affreightment, the presence of the negligence clause and/or latent defect clause in the bills of lading and/or Charter Party and/or contract of affreightment as between the assured and assurers shall not prejudice this insurance.

The risks covered by this policy do not include loss, damages or expense resulting from explosion howsoever or wheresoever occurring, but it is specially understood and agreed that the above wording is not intended to cover the risk of war, riot or civil commotion, authorities of Boating mines, or to in any way prejudice the printed wording of the policy excluding risks of this nature.

In case of loss or injury from perils insured against to any part of a machine constituting when complete, for sale or use, of several parts, the insurer shall only be liable for the insured value of the part lost or damaged.

In case of damage from perils insured against affecting labels only, loss to be limited to an amount sufficient to pay the cost of new labels and re labelling the goods provided same amounts to a claim under the terms of this insurance.

MARINE INSURANCE CERTIFICATE

COMBINED CERTIFICATE OF VALUE AND OF ORIGIN TO BE WRITTEN, TYPED OR PRINTED ON INVOICES

I (1) The Manager of (2) Canadian Exporters Ltd. of (3) Montreal,

supplier of the goods enumerated in this invoice amounting to $70,000

hereby declare that I [(4) have the authority to make and sign this certificate on behalf of the aforesaid manufacturer/supplier and that I] have the means of knowing and do hereby certify as follows:—

VALUE

1. That this invoice is in all respects correct and contains a true and full statement of the price actually paid or to be paid for the said goods, and the actual quantity thereof.

2. That no arrangements or understanding affecting the purchase price of the said goods has been or will be made or entered into between the said exporter and purchaser or by anyone on behalf of either of them either by way of discount, rebate, compensation, or in any manner whatever other than as fully shown on this invoice, or as follows (5) ———

ORIGIN

(Delete whichever of 3 (a) or 3 (b) is not applicable. If 3 (a) is used delete 4 and 5. If 3 (b) is used insert required particulars in 4 and 5.)

3. (a) That every article mentioned in the said invoice has been *wholly* produced or manufactured in (6) Canada

3. (b) That every article mentioned in the said invoice has been either *wholly* or *partially* produced or manufactured in (6) ———

4. As regards those articles only partially produced or manufactured in (6) ———

(a) That the final process or processes of manufacture have been performed in that part of the British Dominions.

(b) That the expenditure in material produced in (6) ..... and/or labour performed in (6) ..... calculated subject to qualifications hereunder, in each and every article is not less than one-fourth of the factory or works cost of such article in its finished state.

5. That in the calculation of such proportion of produce or labour of the (6) ——— none of the following items has been included or considered:—

"Manufacturers' profit or remuneration of any trader, agent, broker, or other person dealing in the articles in their finished condition; royalties; cost of outside packages or any cost of packing the goods thereinto; any cost of conveying, insuring, or shipping the goods subsequent to their manufacture."

Dated at Montreal, this 5th day of August, 19 26

Witness A. B. Jessop *Signature* James Malcolm

(1) Here insert Manager, Chief Clerk, or as the case may be.
(2) Here insert name of firm or company.
(3) Here insert name of city or country.
(4) These words should be omitted where the manufacturer or supplier himself signs the Certificate.
(5) Here insert particulars of any special arrangement.
(6) Insert "United Kingdom" or name of other part of British Dominions.

CERTIFICATE OF ORIGIN

ABBREVIATED FORM OF INVOICE AND CERTIFICATES REQUIRED IN CERTAIN BRITISH COLONIES.

Appended hereto is a Form of Invoice and Combined Certificate of Value and of Origin adopted in several British colonies where ad valorem duty is levied on the invoice price of goods without reference to current domestic value in the country of export. The forms in question are based on the recommendations of the Imperial Customs Conference, 1921. The complete forms recommended by the Conference (see F.T.D. Leaflet No. 32 issued by the Department of Trade and Commerce) called for particulars about current domestic value on the invoice and in the declaration of value, but these particulars are not required in the amended forms set forth in this leaflet. The abbreviated forms have been adopted in several British West Inc an colonies and certain British colonies in other parts of the world. The list of colonies using these forms is likely to be extended from time to time. Persons requiring information as to whether the form has been adopted by any particular customs administration are invited to write the Department of Trade and Commerce Ottawa, for information on the subject. In the case of goods exported to colonies which have adopted the simpler forms but which do not grant a tariff preference to British goods, the portion of the certificate dealing with origin may be struck out.

In addition to the text quoted, some colonies, in the official forms which they issued, have included the following explanatory note (which presumably would apply to Canada) after paragraph 4 in the certificate of origin:—

In the case of goods which have at some stage entered into the commerce of or undergone a process of manufacture in a foreign country only that labour and material which is expended on or added to the goods after their return to the United Kingdom shall be regarded as the produce or manufacture of the United Kingdom in calculating the proportion of United Kingdom labour and material in the factory or works cost of the finished article.

FORM OF INVOICE

Country of origin	Marks and numbers of packages	Quantity and description of goods	Selling price to purchaser	
			@	Amount
Canada	P B.	10,000 Sacks "Special Flour" 1,960,000 lbs.	$7 per sack	$70,000

avoided as these are not always understood by bankers and others who must examine these documents. Full weights and measures are necessary and the numbers, marks, and other details contained in bill of lading, marine insurance policy, or certificate and consular invoice must all agree exactly with those on the commercial invoice. Charges for freight, insurance, and other items than the actual cost of the goods should be shown separately as in the specimen attached. Prices must indicate the terms of the quotation which may either be "F.O.B.—(inland point)," "F.O.B.—freight prepaid to—(seaboard point)," "F.O.B. cars—(seaboard)," "F.O.B. cars—(port) L.C.L.," "F.O.B. cars—(port) lighterage free," "F.A.S. Vessel—(port)," "F.O.B. vessel—(port)," "C. & F.—(foreign port)," or "C.I.F.—(foreign port)." Just what each of these terms imply is explained in the Appendix under "Definition of Quotations."

Certificates of Origin.—The certificate of origin is required in many countries where, as in the British Empire, preference rates are applicable to goods from other British possessions or colonies, or where there is a reciprocal tariff arrangement as exists between many countries of Europe. India under its "Merchandise Marks Act" requires that each unit of merchandise be stamped with the words "Made in—(country of origin)." Only where the United States enjoys reciprocal arrangements is a certificate of origin required in order to obtain the full benefits under such an arrangement. Full information on

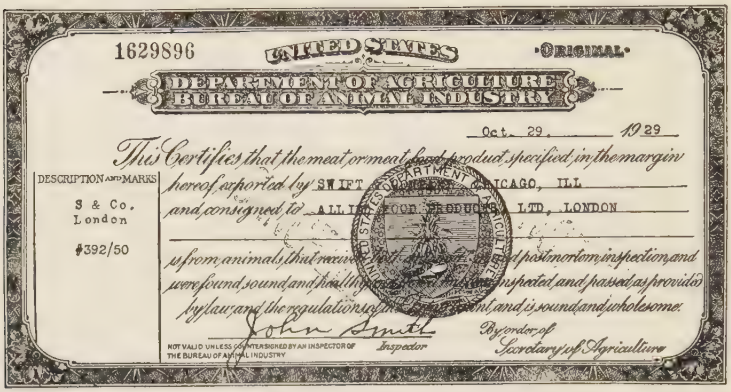
these points may be obtained by addressing the Tariff Division, U. S. Department of Commerce, Washington, D. C., or by applying direct to any of the District or Cooperative offices of the Bureau of Foreign & Domestic Commerce throughout the United States.

Packing Lists and Certificates of Inspection.—The details regarding the weight, measurement, and contents of each case, when a number of units are being shipped, can often be more conveniently contained in a separate list from the commercial invoice. This is called a packing list. There must, of course, be one packing list for each commercial invoice.

On perishable shipments, certificates of inspection, indicating that the goods have been inspected by responsible or designated persons before shipment and found in good condition, are usually required. The resident consul of the country of destination usually supplies these forms or indicates how they may be procured. In the shipment of live cattle or of meats, health certificates are usually required. As the United States Government inspects such products under its own laws, a certificate of such inspection is often all that is required by the foreign government.

Freight Forwarders and Documentation.—The small exporter need not be alarmed at the formidable array of instructions listed above. Agencies in the large ports exist, which at a nominal fee will undertake to attend to all of the many details necessary to documentate completely and correctly any foreign ship-

ment. Unless the volume of export business is extremely large, therefore, much of this detail may


1629896 UNITED STATES ·ORIGINAL·

DEPARTMENT OF AGRICULTURE
BUREAU OF ANIMAL INDUSTRY

Oct. 29. 1929

This Certifies that the meat or meat food product specified in the margin hereof exported by SWIFT [illegible] CHICAGO, ILL and consigned to ALLIED FOOD PRODUCTS, LTD, LONDON

DESCRIPTION AND MARKS
S & Co. London
#392/50

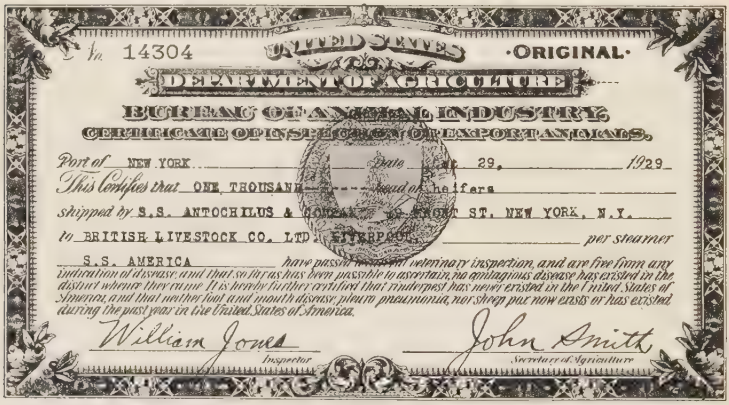
is from animals that received ante-mortem inspection and post-mortem inspection and were found sound and healthy at the time they were inspected, and passed as provided by law and the regulations [illegible] and is sound and wholesome.

John Smith Inspector
By order of Secretary of Agriculture

NOT VALID UNLESS COUNTERSIGNED BY AN INSPECTOR OF THE BUREAU OF ANIMAL INDUSTRY

Certificate of Inspection

be avoided by turning the work over to a freight forwarder. In inland cities such agencies also exist


No. 14304 UNITED STATES ·ORIGINAL·

DEPARTMENT OF AGRICULTURE
BUREAU OF ANIMAL INDUSTRY
CERTIFICATE OF INSPECTION OF EXPORT ANIMALS

Port of NEW YORK Date Nov. 29, 1929

This Certifies that ONE THOUSAND head of heifers

shipped by S.S. ANTOCHILUS & MORGAN CO. FROONT ST. NEW YORK, N.Y.

to BRITISH LIVESTOCK CO. LTD LIVERPOOL per steamer

S.S. AMERICA have passed successful veterinary inspection, and are free from any indication of disease; and that so far as has been possible to ascertain, no contagious disease has existed in the district whence they came. It is hereby further certified that rinderpest has never existed in the United States of America, and that neither foot and mouth disease, pleuro pneumonia, nor sheep pox now exists or has existed during the past year in the United States of America.

William Jones Inspector
John Smith Secretary of Agriculture

Health Certificate

with connections in the seaports so that long-distance transactions may be largely obviated. The test

for each manufacturer or exporter as to whether he should set up his own staff to attend to these details or employ a freight forwarder lies in the character and volume of his export business. Usually the freight forwarder charges a flat rate of say $4.00 per set of documents which includes all the detail of having the consular invoices signed, prepaying the ocean freight, and making up the insurance certificates. Charges for other services are usually extra. If the volume of individual documents or shipments is very great, this expense may be out of proportion to the value of the goods and a staff to handle directly may prove cheaper. On the other hand when only occasional shipments of bulky and valuable goods are made, the expense of maintaining a staff especially for this work would seem a waste of money.

CHAPTER XII

Receiving Payment from Abroad

We have attempted a comprehensive treatment of the whole subject of financing export shipments with a single object in view: namely, to indicate the various methods that may be employed by exporters to obtain payment for their foreign shipments, at the same time conforming to the practices and exigencies of any given set of circumstances that may surround their particular transaction. In order to inject method and system into our consideration of the various methods, we have considered first three great factors which undoubtedly influence the selection of any method of financing—the credit of the consignee, the peculiarities of his market, and the character of the commodity. We have tried to dispel any of the mystery that may linger in the minds of those who have never ventured into the foreign field, and have tried to show those whose initial attempts may have ended in disaster wherein they may have erred. Many of these undoubtedly reside at inland points where lack of first-hand contact with the banks who ultimately discount their paper and send it abroad for collection is, indeed, somewhat of a handicap. That complicated transactions in financing foreign shipments are daily being carried out by

exporters residing at places remote from the seaboard, however, indicates that the process is simple, once it is understood. Moreover, if the question of the consignee's credit is once established, the location of his market and the character of the commodity itself should have only a minor influence upon the ultimate judgment of the exporter. The use of the letter of credit is always available to shippers who are unable to establish a satisfactory credit rating for a prospective customer. If the credit report is good the shipper has the choice of straight D/P or D/A financing. In adopting either of these, however, complete information is necessary concerning foreign laws governing the handling of drafts and the bank must be fully instructed in each case as to how to proceed in any emergency. What becomes of the exporter's draft after he has discounted it and how the disposition of it influences the rate of dollar exchange, round out our consideration of the whole subject.

Credit Information the Key to Financing.—It has been made plain that a satisfactory credit report on any foreign consignee is a prime prerequisite. Only at additional expense will any bank assume his credit risk. If, however, he will adopt the simple expedient of requiring the consignee to give references in the United States with whom the consignee has done business, the most satisfactory source of credit information is placed within easy reach. Failing in this, however, the Sales Information Reports of the U. S. Department of Commerce are an excellent and

easily accessible source of information and through this medium free details on some 400,000 foreign importers are available at no cost whatever. Supplementing this is the interchange of ledger experience available to members of such organizations as the National Credit Men's Association. The banks themselves, especially those in the great ports with large foreign departments, are valuable funds of credit information for their customers and the occasional casual inquirer. A number of private organizations, too numerous to mention specifically, maintain foreign credit files which may be consulted at a nominal cost. Finally the moral standing of the consignee is infinitely more important than his financial standing. Numerous sources of foreign credit information are, therefore, available as a basis for the formation of judgment on any given risk.

How Markets Affect Financing.—Having determined the credit standing of his customer, the exporter's next consideration is one of market influences. How do Indian merchants in remote inland cities differ from those in the ports in their appreciation of the responsibilities of the consignee in the matter of drafts drawn against payment? Why should a draft be presented through the correspondent bank designated by the consignee in countries where trust receipts are widely used? When is the standing of the bank through whom drafts are presented for payment abroad an important consideration and why? Why is an overstocked market a good market to avoid unless part or all of the value of

the shipment is guaranteed in advance? What useful function does the export commission house perform? How does the general economic condition of a country affect the type of financing which should be employed? The answers to these and a number of other questions have unfolded the potent influence which market characteristics exert upon financing.

Commodity Influence in Financing.—Less marked but still important is the influence which the character of the commodity itself plays in the matter of selecting the right type of financing. Staple raw materials whose prices fluctuate with the world supply and demand cannot be satisfactorily financed except through some method that gives reasonable assurance that obligations will be met. When such goods are shipped on consignment, "hedging" can prevent any loss through violent fluctuation. Where standards of quality are fixed on certain commodities other methods of financing may be employed, provided the standing of the consignee is such as to assure his meeting all claims promptly. Similarly, the revolving letter of credit provides for the shipper of commodities in constant demand an inflexible source of credit upon which he may depend at all times in meeting the requirements of his foreign customers. In financing producers' goods which have a definite earning power, arrangements can be made for long-term financing outside the regular banking channels. This applies particularly to goods against which a valid lien assures the exporter of a minimum loss by repossession in case of default. Finally, the

financing of that great group of commodities which enter into immediate consumption abroad is handled principally through drafts drawn against payment or acceptance depending upon not only the credit of the consignee and the position of the market, but very frequently upon length of time required for the commodity, because of its very nature, to reach the consumer.

Varied Uses of the Irrevocable Letter of Credit.— Instead of remitting cash in advance and thus tying up his finances for an indeterminate period, the consignee, if he wishes to assure the shipper absolutely that payment will be made, and incidentally himself that he will obtain the type of goods ordered, may arrange through his bank to issue a letter of credit in favor of the shipper. Against this the shipper may draw, provided his documents show that he has complied with the terms of the letter and, if required, that the goods are of the quality desired. He is absolutely assured that his draft will be paid when due. Moreover, he may use the letter of credit, as a document indicating that his shipment will be accepted when ready, for all sorts of credit extensions from his own suppliers, provided his general credit is good. By means of it he obtains his money for his shipment as soon as it is loaded on the vessel, while the consignee pays interest only from the time that the drafts are drawn. Through the medium of this instrument the banks are enabled, with perfect safety, to perform valuable services to both shipper and consignee.

Helping the Foreign Dealer to Give Credit and Pay Cash.—The finance companies and foreign banks, by financing the paper of the foreign dealer's customers, place the dealer in funds with which to meet the drafts of exporters of motor cars, household appliances, and machinery. Various types of contracts are employed, the most common being the conditional sales agreement and the hire-purchase agreement. Promissory notes and chattel mortgages, however, may be used to the same general purpose. As most of the actual financing of this paper is done abroad, the exporter is not especially concerned with the many variations in foreign laws which exercise a potent influence upon the method and type of deferred payment financing. Motor car manufacturers, however, have set up their own finance companies abroad, when other means of discounting the dealer's paper did not exist, and have thereby greatly augmented the sale of their product. The extension of the operation of domestic finance companies to the foreign field has been somewhat retarded by high money rates at home, but the time seems not far distant when manufacturers and exporters can ship to foreign dealers who are selling on the installment plan with every assurance that adequate machinery exists for the prompt provision of funds with which to meet their drafts. The deferred payment plan has admittedly done much to increase the volume and speed up the tempo of domestic business. Its widespread adoption abroad should create those incentives to enjoy the good things of life among foreign

peoples that have played so important a part in our own remarkable prosperity.

Acceptances Provide Convenient Method.—Through the provisions of the Federal Reserve Act, bankers have been empowered to accept the drafts of exporters in exchange for such security, as may be provided by them in passing to the acceptance bank title in the goods exported. Acceptances have therefore come to play a very important part in our export financing. Drafts so accepted become readily salable in the short-term money market and provide a valuable medium of investment for short-time funds. At the same time, the acceptance bank, by retaining an absolute lien on the drawer's merchandise, authorizes its release only on payment or acceptance against satisfactory guarantee by the foreign consignee. By means of acceptance credits, moreover, an exporter may accumulate a shipment with the assurance that when his shipping documents are ready his draft will be accepted and readily sold. Manufacturers who must import their raw material before it can be worked up into an exportable product may, by means of acceptance financing, obtain an advance against their future export shipment which will finance the imported raw material.

Straight Drafts Require Careful Handling.—Where neither the letter of credit nor the acceptance credit is available, as is the case in the financing of most consumers' goods, greater care must be exercised by the shipper, not only in investigating the credit of the consignee, but in making himself familiar with

all the laws and regulations of the foreign country to which his shipment is destined, which relate to bills of exchange. The instruction sheet furnished by the bank should be carefully filled out, with the realization that the bank, even if it discounts or makes an advance against a draft, always has recourse on the drawer. In most countries, for example, documentary collections are presented on receipt of the documents and not held until the arrival of the steamer carrying the goods. Only a day or two is allowed for the drawees to accept or pay. If, therefore, the shipper feels that the arrival of the goods will be delayed and the consignee has indicated a desire to inspect them before he accepts or pays the draft, considerable difficulty may ensue unless the exporter's bank is definitely instructed not to have its correspondent bank present the draft until the arrival of the goods. Even this is not possible in some countries and every effort should be made in those cases to see that the drafts do not arrive before the goods even if their negotiation at the bank has to be somewhat delayed because of slower steaming time of the vessel bearing the goods than that of the vessel carrying the mails. Instruction to protest is highly important, likewise, because in most foreign countries suit for non-payment or non-acceptance cannot be brought unless the item has been protested. These and many other details cannot receive too close attention from exporters in making up instructions to their banks in the matter of handling their drafts.

Quoting an Integral Part of Financing.—Having determined the proper method of financing, it is necessary to incorporate it in the quotation. More important, perhaps, than this, however, is the exact definition in the quotation of what the price quoted indicates. Exporters usually decide whether their prices are "F.O.B. Factory," "F.O.B. Cars, New York," "F.A.S. New York," "F.O.B. Steamer, New York," or "C.I.F. Bombay." There are other less usual quotations included in the standard list, with interpretations, included in the Appendix. The manner of payment designated by the shipper in his printed catalogues or literature is not always acceptable to the consignee, and agreement is sometimes only reached after considerable cabling back and forth. In every case the printed terms should be the least lenient you expect to give, thus leaving the way clear to make them more lenient in case the credit of the inquirer warrants it. At any rate, once the order is accepted a confirmation of it should be promptly mailed, giving approximate shipping date where possible, so that the foreign merchant may arrange his finances accordingly.

How Drafts Create Foreign Exchange.—Were it not for international business and the necessity every time a shipment of goods is made abroad, of negotiating the sale abroad of an equivalent amount of foreign currency or its exchange into dollars, there would be no regular barometer of the value of foreign currencies in terms of dollars which we term the exchange rate. There would, moreover, be very little

need for an exchange market where foreign currencies or their tokens, foreign drafts, could be readily bought and sold. As it is, however, the demands of foreign merchandise transactions are so great in comparison with the other transactions which create foreign exchange, that merchandise movement wields the most potent influence over the exchange market. Theoretically the gold content of the American dollar in its relation to the gold content of the unit of foreign currency fixes the mint par of exchange. The commercial exchange rate, however, is fixed for the most part by the supply and demand of drafts drawn by or against a given country. When the commercial rate is so far above the mint par rate that it pays to buy gold abroad with that country's foreign exchange and ship it, the situation tends to right itself through the rise in the country's price level of commodities. The drain of a country's gold, on the other hand, will restrict credit and lower price levels. It may be stopped by abandoning the gold standard and permitting exchange to go to a discount but prices will then rise. The maintenance of the gold standard, therefore, tends to keep all countries adopting it on the same general price level. When inflation, due to insufficient gold or an excess of paper currency, occurs, government expenditures must be cut down and paper currency called in, or gold payments suspended. If the latter course is adopted progressive depreciation of the currency and its exchange value will result, until the fundamental cause of depreciation is remedied. One method of achieving this is to

create artificial barriers to imports such as tariffs. A declining exchange rate, therefore, indicates that sooner or later that country will be a hard one to sell in.

Conclusion.—While many pitfalls, therefore, await the feet of the unwary in financing export shipments, safeguards have been provided for every one of them. Experience is often the best teacher but not always the least expensive one. It is still the fashion for the so-called "old hands" who have learned everything they know in the "school of hard knocks" to deride books as inadequate. Let us hope they are wrong and that something, in this or another book, may save the reader many times its price in bitter experience.

APPENDIX A

Protest Fees

(From Exporters' Financial Deskbook—Published by Seaboard National Bank.)

Europe

Country	*Protest Fees*	*Time Limit on Bringing Suit*
Austria	7%	3 years against acceptance
Azores	$1.00 to $3.00	5 years
Belgium	Belgian francs 8 to 35	5 years
Bulgaria	8% plus Leva 36; minimun Leva 54	3 years against drawee
Czechoslovakia	½% Min. Kr. 16	3 years for non-payment. Suit cannot be brought against drawee for non-acceptance.
Denmark	Kr. 7 to 12	For payment 3 years against acceptor
England	Aver. Cost £0–6–6 to £0–18–6	6 years
Finland	Finnish Marks 50 plus postage	3 years against acceptor
France	Frs. 20 to 80. If protest registered 7½% Registry Tax.	5 years
Free State—Danzig	Dependent on amount, $1,000 about $5.00	3 years against acceptor

Country	*Protest Fees*	*Time Limit on Bringing Suit*
Germany	Dependent on amount. Marks 10,000 about $10	3 years
Gibraltar	About $2.00	6 years
Greece	About $1.00	5 years
Holland	From Guldens 10 to 30	30 years with various exceptions enumerated in the law
Hungary	About ¼%	3 years for non-payment
Iceland	Kr. 5.50 to 17.50	6 months
Ireland	£0–3–6 to £0–6–0	6 years
Italy	Average cost $1.00 to $5.00	5 years
Jugoslavia	Dinar 12 to dinar 300	3 years
Latvia	About ¼%	Immediately after act of protest has been delivered
Malta	About $3.00	5 years
Norway	Kr. 5 to 10	3 years
Poland	Up to 2%	Generally 3 years
Portugal	About $1.00	5 years
Rumania	About 1¼%	120 days
Scotland	£0–10–10 to £0–11–8	6 years
Spain	Average cost $2.50 to $5.00	3 years
Sweden	Average cost about Kr. 5.50	3 years
Switzerland	Swiss francs 5.70 to 22	3 years
Turkey	Average cost $1.00 to $5.00	5 years
U. S. Soviet Republic	Rouble 1 stamp duty plus 2 mills of the amount of the bill	3 years against acceptor

NORTH, CENTRAL AND SOUTH AMERICA

Country	*Protest Fees*	*Time Limit on Bringing Suit*
Canada	$3.50 to $4.50	Six years except Quebec which is 5 years
Mexico	Gold pesos 15 upward	3 years
Bermuda Islands	$2.40	7 years
Antigua	£0–10–0 to £0–15–0	6 years
Bahama Islands	About £0–40 for every £20	6 years
Cuba	$8.50 upward	3 years
Dominican Republic	$14.00 to $25.50	5 years and one day from date of protest
Guadalope	About 1% to 1½% of the amount involved	5 years
Grenada	£0–10– to £0–15–0	6 years
Haiti	$3.00 to $5.00	7 years
Isle of Pines	$7 upward	3 years
Jamaica	From £0–5–0 to £1–1–0	7 years
Martinique	About 20 frs. plus registration fee 6 per mill	5 years
Montserrat	$1.20	2 years
Porto Rico	$5.00	3 years
Trinidad	$3.00	4 years after maturity
British Honduras	$3.25	6 years
Costa Rica	$6.25	4 years
Guatemala	$10.00	4 years
Honduras	About $10.00	3 years
Nicaragua	$7.00 upward	3 years
Panama	$4.40	10 years

Country	*Protest Fees*	*Time Limit on Bringing Suit*
Salvador	About 1% minimum $5.00	3 years
Argentina	$5.10 upward	3 years
Bolivia	6 to 7 Bolivianos	10 years
Brazil	About 40 milreis	5 years
British Guiana	$5.96	3 years
Chile	Pesos 36.50	4 years from date of maturity
Colombia	$6.80	4 years
Dutch Guiana	$2.20	30 years
Ecuador	$4.00	5 years
French Guiana	Frs. 18	8 years
Paraguay	$3.00	3 years
Peru	$2.00 to $6.00	6 months
Uruguay	1½ per mille, decreasing for large amounts	4 years
Venezuela	About $7.50	3 years
	Asia	
Arabia	About 12 Rupees	3 years
Borneo	About $10.00	For non-payment 10 years after being protested
Burma	Rupees 6 to 22	A reasonable time
Celebes	About $6.50	10 years
Ceylon	Rupees $9.75 to $14.75	6 years
China	Protest fees vary according to laws of countries concerned	Subject to laws of respective countries
Cochin China	$5.00 to $10.00 plus 1% registration fee	5 years
Cyprus	£0–8–7	Non-acceptance. No time limit. Non-payment after acceptance 5 years.

Country	*Protest Fees*	*Time Limit on Bringing Suit*
Formosa	$1.50 plus actual expenses	3 years for non-payment
French Indo-China	Various	5 years
India	About $9.00	3 years
Japan	$2.50	3 years only for non-payment
Java	About $10.00	10 years
Korea	30 sen plus expenses	One year from date of protest
Malay States	About Strs. $10.00	5 years
Mesopotamia	About 8 rupees upward	15 days
Palestine	About $15.00	15 days
Persia	About ⅝%	No fixed time
Philippine Islands	$2.50 upward	10 years
Siam	About $7.00	A reasonable time
Straits Settlements	$10.00	No time limit
Syria	About $2.00 to $5.00	5 years
	AUSTRALASIA	
New South Wales	£1–1–0	6 years
New Zealand	£1–1–0 to £2–2–0	6 years
Queensland	£1–1–0	6 years
South Australia	£1–2–0	7 years
Tasmania	£1–1–0	6 years
Victoria	£1–1–0	6 years
Western Australia	£1–1–0	6 years
Fiji Islands	About $11.00	6 years
Hawaiian Islands	$2.00 and $2.00 for every notice given	4 years

Country	*Protest Fees*	*Time Limit on Bringing Suit*
New Caledonia	Frs. 11.40 plus 7 per mille registration fee	5 years
Samoa	No costs	6 years
Tahiti	About ½%	5 years

APPENDIX B[1]

Uniform Regulations for Commercial Documentary Credits

COMMERCIAL DOCUMENTARY CREDITS

Report of the Amsterdam, Holland, Meeting of the International Chamber of Commerce

Comment by Mr. Wilbert Ward, *Chairman Standard Forms Committee, American Acceptance Council Assistant Vice-President, National City Bank*

At the Amsterdam Congress of the International Chamber of Commerce held in July, genuine progress was made toward the realization of an international standardization of regulations for the interpretation of commercial documentary credits. This movement, initiated some years ago in the United States by the American Acceptance Council, supported by the Commerce and Marine Commission of the American Bankers Association and the American section of the International Chamber of Commerce, has, with the cooperation of similar groups in the European countries, culminated in the following report:

The International Chamber of Commerce approves the following uniform regulations on documentary credits.

Whereas, such regulations are of the utmost importance to international banking and trade, and

[1] From *The Acceptance Bulletin,* August, 1929.

Whereas, the full benefit of these regulations can only be obtained if they are applied in the greatest number of countries,

Resolves:

That all National Committees be requested to call upon the banking and commercial organizations of their respective countries to apply these regulations, and

That International Headquarters be requested to use its influence to obtain the application of these regulations not only in countries belonging to the International Chamber of Commerce but also in all countries that have not yet formed National Committees.

A. Forms of Credits.—1. Commercial Documentary Credits are essentially distinct transactions from sales contracts on which they may be based and with which banks are not concerned.

2. Commercial Documentary Credits may be either:

(a) Revocable.

(b) Irrevocable.

3. All credits, unless clearly stipulated as irrevocable, are considered revocable, even if a term of validity is indicated in the clause "unless revoked."

4. Revocable credits are not legally binding undertakings between bank and beneficiary. Such credits may be modified or cancelled at any moment without the bank being obliged to notify the beneficiary. When a credit of this nature has been given to a correspondent, its modification or cancellation can take effect only upon receipt of notification by the said correspondent, or by the firm to which the latter has transferred the credit.

5. Irrevocable credits are definite undertakings by a bank in favor of the beneficiary. They can neither be modified nor cancelled without the agreement of all concerned.

6. Irrevocable credits may be notified to the beneficiary through an advising bank without responsibility on the lat-

ter's part when it has merely been asked to notify the beneficiary.

7. However, an advising bank may be called upon by the issuing bank to confirm an irrevocable credit. In this case, the advising bank makes itself responsible for the undertaking given by the issuing bank as from the date on which it gives confirmation.

8. If in connection with such credits the period of validity is not stipulated, the beneficiary will only be advised of the credit for information, and the credit will only be confirmed when the duration of validity has been specified, and this implies no responsibility on the part of the advising bank.

9. When an irrevocable credit is opened in the form of a letter of credit, such letter of credit entails its notification and an undertaking by the issuing bank towards the beneficiaries and holders in good faith to honor all drafts issued by virtue of and in conformity with the clauses and conditions contained in the document. The document itself may be transmitted or the issuance thereof notified by an advising bank without the latter becoming responsible.

B. Liability.—1. Banks shall examine all documents and papers with care sufficient to ascertain that on their face they appear to be in regular form.

2. However, banks assume no responsibility or liability for the form, sufficiency, correctness, genuineness or legal effect of any documents or papers, or for the description, quantity, weight, quality, condition, packing, delivery or value of goods represented thereby, or for the general conditions stipulated in the documents, or for the good faith or acts of the consigner or any other person whomsoever, or for the solvency, standing, etc., of the carriers or insurers of the goods.

3. Banks assume no liability or responsibility for the consequences arising out of delay and/or loss in transit of cables, letters and/or documents, or for delay, mutilation or other errors in the transmission of cables or telegrams, or for errors of translation or interpretation of technical terms, and banks

reserve the right to transmit credit terms without translating them.

4. Banks assume no liability or responsibility for consequences arising out of the interruption of their business either by a decision of a public authority, or by strikes, lock-outs, riots, wars, causes beyond their control, or acts of God. On credits expiring during such interruption of business the banks will be able to make no settlement after maturity except on specific instructions from the customer.

5. Banks opening a credit abroad assume no liability or responsibility towards their customer, unless they themselves are at fault, should the instructions they transmit be carried out abroad otherwise than in accordance with the present regulations. The customer is responsible to the banks for all obligations imposed upon the latter by foreign laws and customs.

C. Documents.—1. When banks receive instructions to pay against documents, shipping documents, or words of similar import without further specification, they shall consider themselves authorized to honor the following documents in negotiable and transferable form, in particular:

Full set of ocean bills of lading,
Policy or certificate of insurance,
Invoices,

or in case of inland shipments:

Bills of lading or other similar documents such as
Counterfoil waybill or postal receipt, or railway consignment note, etc.,
Policy or certificate of insurance,
Invoices.

Banks have the right to waive insurance papers if the beneficiary furnishes proof satisfactory to them that the goods are insured by the consignee.

Unless otherwise instructed the banks will interpret the undermentioned terms contained in commercial credits as follows:

2. *Bills of Lading.*—Banks may accept—when bills of lading are required—"received for shipment" or "alongside" bills of lading.

3. For shipments of cotton from the United States, banks are authorized to accept bills of lading drawn under the Liverpool Convention, that is to say Port—or Custody Bills of Lading.

4. Banks will also accept ocean bills of lading permitting transhipment, outside the usual printed clause, on condition that the entire voyage be effected under one and the same bill of lading, unless the credit specifies direct shipment. In any case, when a bill of lading for shipment by steamer is requested, banks may consider themselves authorized to accept bills of lading for shipment by motor vessel.

5. "Through Bills of Lading" issued by official agents of steamship companies may be accepted, but bills of lading issued by forwarders will be refused, as also bills of lading for shipment by sailing vessels.

6. The date of the bill of lading, railway receipt, counterfoil waybill, and postal receipt in each case will be taken as evidence of shipment or the dispatch.

7. When "On Board" shipment is required and such shipment is represented by an "on board" Bill of Lading, the bill of lading date will be taken as evidence that the goods have been shipped on or before that date. If evidenced by "On Board" endorsement, the endorsement date will be so taken.

8. Shipping documents bearing reservations as to the apparent good order and condition of merchandise will be refused.

9. Banks have the right to demand that the name of the beneficiary appear on the bill of lading as shipper or cédant, or that the Bill of Lading be made out to order of beneficiary and endorsed in blank by the latter.

10. *Insurance.*—Banks have the right to accept either insurance policies or underwriter's insurance certificates, unless insurance certificates are specially excluded.

11. Banks may accept insurance coverage which at least equals the invoice value of the goods, or the amount of the settlement if latter is higher.

12. In the absence of specification as to risks to be covered the bank may accept ordinary marine insurance.

13. If an insurance policy or certificate is required on overland shipments, banks may accept insurance policies covering ordinary transportation risks.

14. When credits stipulate "insurance against all risks" banks will see that the documents are as reasonably complete as possible, but cannot be held responsible if certain risks are not covered.

15. *Invoices.*—Invoices must be in the name of the person for whose account the credit is opened or any other person appointed by same.

16. Banks may insist that the description of the goods appearing upon the invoices shall agree with the terms of the credit. As regards quality, banks are only obliged to see that the description of the invoice agrees with that of the credit. They may, however, accept shipping and insurance documents in general terms.

17. *Other Documents.*—When other documents, such as consular invoices, certificates of weight, of quality or of analysis, are called for, without further definition, the banks may accept such documents as presented.

18. As proof of weight in case of railway carriage, the banks may refer to the notation of weight usually appearing upon railway receipts or upon the counterfoil waybill if officially authenticated.

D. Interpretation of Terms.—1. *"About" or "Circa."*—This term to be construed as allowing a variation not to exceed 10% more or less in respect to the quantity or the value of the merchandise.

2. *"Partial Shipments."*—Unless otherwise instructed, banks may pay for partial shipments, even if their *pro rata* value cannot be determined.

3. If shipment by instalments within given periods is specified, each instalment shall be treated as a separate transaction. The instalment not shipped at the given period cannot be added to subsequent shipments and is *ipso facto* cancelled. Banks will, however, continue to pay for subsequent shipments on condition that they are made at the given periods.

4. *"Validity."*—The period for which all irrevocable credits are to remain in force must be stipulated. This period may be either a date of payment or date of shipment. If the credit does not specify which, the bank shall consider the date to be date of payment and after its expiration shall refuse payment, even if the documents bear a date included within the date of payment.

5. The words "to," "until," "till" and words of similar import applying to dates of maturity or orders are understood to include the date mentioned.

6. When the last stipulated date for payment falls on a Sunday, or public or local holiday, or upon any day upon which, under local law or custom, payments cannot be demanded, the payment shall be made in accordance with the law or custom of the place of payment. This does not apply to the last day for shipment, which must be respected whatever the day of the week.

7. The validity of a revocable credit, if no date is specified, will be considered to have expired six months from the date of the notification sent to the beneficiary by the bank with which it is opened and this bank will refuse payment after six months, unless its customer gives specific instructions to the contrary.

8. *"Loading, or Shipment, or Despatch."*—"Prompt," "immediately," "as soon as possible," etc. These terms, and others of similar import, are to be interpreted as a request for shipments and presentation of documents within thirty days from the notification to the beneficiary, unless a date has been stipulated. When the word "departure" in a commercial documentary credit or commercial letter of credit is used to specify

the final date of shipment of goods, this term may be interpreted as similar to "shipment" or "loading" or "despatch" and banks may be guided by the dates appearing upon bills of lading or other shipping documents.

9. *"Presentation."*—When the date of shipment alone is specified in a credit, the documents must be presented without delay.

10. In the case of a credit payable on a certain date, the documents must be presented to the bank during the usual banking hours.

11. *"Prolongation."*—Any extension of the date of shipment shall extend for an equal length of time the date for presentation or negotiation of documents or drafts.

12. *Definition of Date Terms.*—The terms "first half," "second half" of a month shall be constructed as from the 1st to the 15th, and the 16th to the last day of each month inclusive, respectively.

13. The terms "beginning," "middle" or "end" of month shall be constructed respectively as from the 1st to the 10th, the 11th to the 20th and the 21st to the last day of each month.

14. When a credit bears "good for one month, six months, etc.," and the customer has not specified the date from which the term is to run, the term shall run from the date on which the order has been given.

E. Transfers.—1. A credit can only be transferred on the express authority of the customer. In this case the credit can be transferred only once, and on the terms and conditions specified in the original credit, including duration of validity.

2. Authority to transfer a credit covers authority to transfer it to another place. Bank charges entailed by such transfer are payable by the original beneficiary unless otherwise specified. During the validity of the original credit, payment may be made at the place to which the credit has been specified.

Reservations.—1. By the British Delegation, based on the customary banking practice of British Banks:

Regarding Section C, paragraph 2: Received for shipments or alongside bills of lading are not accepted by British banks as good delivery unless specifically authorized.

Regarding Section C, paragraph 10: It is not the practice in London to accept a certificate of insurance without specific instruction (the British Courts having decided on more than one occasion that a certificate of insurance was not a good delivery where a policy of insurance was called for).

Regarding Section D, paragraph 2: This paragraph should be worded: "unless otherwise instructed banks may not pay for partial shipments."

The regulations approved in this report are founded on the basis of the Regulations Effecting Export Commercial Credits adopted in New York in 1920, as revised June 1, 1926, which are printed in full in Vol. 8, No. 6, page 14, of the Acceptance Bulletin of June 30, 1926, and also in a pamphlet of the American Acceptance Council. A summary of the previous work appears in the report of the Committee on Commercial Letters of Credit, of the Council, printed in Vol. 8, No. 12, page 8, of the December 31, 1926, Acceptance Council Bulletin.

While the regulations in the form approved by the International Chamber of Commerce do not in every respect coincide with the regulations or practices of bankers and merchants in the United States, it is not felt that this will constitute an obstacle to the value of the new regulations if adopted. It was inevitable that some compromises would have to be made in reconciling the views of the representatives of the leading commercial nations. The purpose of

the regulations is simply to indicate the interpretation that will be put upon questions concerning which the credit instrument itself is silent, and not to preclude the issuer of the credit from giving specific instructions where it is desired.

APPENDIX C

Definitions of Quotations[1]

Definition of Quotations.—General Rulings as to what should be understood by the various forms of quotations generally used in export trade were adopted at a meeting of the representative export and import interests in New York in December, 1919.

1. When the price quoted applies at inland shipping point and the seller merely undertakes to load the goods on or in cars or lighters furnished by the railroad company serving the industry, or most conveniently located to the industry, without other designation as to routing, the proper term is: "F.O.B. (named point)." Under this quotation:

(a) Seller must (1) place goods on or in cars or lighters, (2) secure railroad bill of lading, (3) pay freight to named port, (4) be responsible for loss and/or damage until goods have been placed in or on cars or lighters at forwarding point and clean bill of lading has been furnished by the railroad company.

(b) Buyer must (1) be responsible for loss and/or damage incurred thereafter, (2) pay all transportation charges, including taxes, if any, (3) handle all subsequent movement of the goods.

[1] From *Financing Foreign Trade,* Royal Bank of Canada.

2. When the seller quotes a price including transportation charges to the port of exportation without assuming responsibility for the goods after obtaining a clean bill of lading at point of origin, the proper term is: "F.O.B. (named point) freight prepaid to (named point on the seaboard)." Under this quotation:

(a) Seller must (1) place goods on or in cars or lighters, (2) secure railroad bill of lading, (3) pay freight to named port, (4) be responsible for loss and/or damage until goods have been placed in or on cars or lighters at forwarding point and clean bill of lading has been furnished by the railroad company.

(b) Buyer must (1) be responsible for loss and/or damage incurred thereafter, (2) handle all subsequent movement of the goods, (3) unload goods from cars, (4) transport goods to vessels, (5) pay all demurrage and/or storage charges, (6) arrange for storage in warehouse or on wharf where necessary.

3. The seller may desire to quote a price covering the transportation of the goods to seaboard, assuming responsibility for loss and/or damage up to that point. In this case, the proper term is: "F.O.B. cars (naming point on seaboard)." Under this quotation:

(a) Seller must (1) place goods on or in cars, (2) secure railroad bill of lading, (3) pay all freight charges from forwarding point to port on seaboard, (4) be responsible for loss and/or damage until goods have arrived in or on cars at the named port.

(b) Buyer must (1) be responsible for loss and/or damage incurred thereafter, (2) unload goods from cars, (3) handle all subsequent movement of the goods, (4) transport goods to vessel, (5) pay all demurrage and/or storage charges, (6) arrange for storage in warehouse or on wharf where necessary.

4. It may be that the goods, on which a price is quoted covering the transportation of the goods to the seaboard, constitute less than a carload lot. In this case, the proper term is: "F.O.B. Cars (named port) L.C.L." Under this quotation:

(a) Seller must (1) deliver goods to the initial carrier, (2) secure railroad bill of lading, (3) pay all freight charges from forwarding point to port on seaboard, (4) be responsible for loss and/or damage until goods have arrived on cars at the named port.

(b) Buyer must (1) be responsible for loss and/or damage incurred thereafter, (2) handle all subsequent movement of the goods, (3) accept goods from the carrier, (4) transport goods to vessel, (5) pay all storage charges, (6) arrange for storage in warehouse or on wharf where necessary.

5. Seller may quote a price which will include the expense of transportation of the goods by rail to the seaboard, including lighterage. In this case the proper term is: "F.O.B. Cars (named port) lighterage free." Under this quotation:

(a) Seller must (1) place goods on or in cars, (2) secure railroad bill of lading, (3) pay all transportation charges to, including lighterage at, the port named, (4) be responsible for loss and/or dam-

age until goods have arrived on cars at the named port.

(b) Buyer must (1) be responsible for loss and/or damage incurred thereafter, (2) handle all subsequent movement of the goods, (3) take out the insurance necessary to the safety of the goods after arrival on the cars, (4) pay the cost of hoisting goods into vessel where weight of goods is too great for ship's tackle, (5) pay all demurrage and other charges, except lighterage charges.

6. The seller may desire to quote a price covering delivery of the goods alongside overseas vessel and within reach of its loading tackle. In this case the proper term is: "F.A.S. vessel (named port)." Under this quotation:

(a) Seller must (1) transport goods to seaboard, (2) store goods in warehouse or on wharf, if necessary, unless buyer's obligation includes provision of shipping facilities, (3) place goods alongside vessel either in a lighter or on the wharf, (4) be responsible for loss and/or damage until goods have been delivered alongside the ship or on wharf.

(b) Buyer must (1) be responsible for loss and/or damage thereafter, and for insurance, (2) handle all subsequent movement of the goods, (3) pay cost of hoisting goods into vessel where weight of goods is too great for ship's tackle.

7. The seller may desire to quote a price covering all expenses up to and including delivery of the goods upon the overseas vessel at a named port. In this case

the proper term is: "F.O.B. vessel (named port)." Under this quotation:—

(a) Seller must (1) meet all charges incurred in placing goods actually on board the vessel, (2) be responsible for all loss and/or damage until goods have been placed on board the vessel.

(b) Buyer must (1) be responsible for loss and/or damage thereafter, (2) handle all subsequent movement of the goods.

8. The seller may be ready to go further than the delivery of his goods upon the overseas vessel and be willing to pay transportation to a foreign point of delivery. In this case the proper term is: "C. & F. (named foreign port)." Under this quotation:

(a) Seller must (1) make freight contract and pay transportation charges sufficient to carry goods to agreed destination, (2) deliver to buyer or his agent proper bills of lading to the agreed destination, (3) be responsible for loss and/or damage until goods have been delivered alongside the ship and clean ocean bill of lading obtained (seller is not responsible for delivery of goods at destination).

(b) Buyer must (1) be responsible for loss and/or damage thereafter and must take out all necessary insurance, (2) handle all subsequent movement of the goods, (3) take delivery and pay costs of discharge, lighterage, and landing at foreign customs duties and wharfage charges, if any.

9. The seller may desire to quote a price covering the cost of the goods, the marine insurance on the goods, and all transportation charges to the foreign

point of delivery. In this case, the proper term is: "c.i.f. (named foreign port)." Under this quotation:

(a) Seller must (1) make freight contract and pay freight charges sufficient to carry goods to agreed destination, (2) take out and pay for necessary marine insurance, (3) be responsible for loss and/or damage until goods have been delivered alongside the ship and clean ocean bill of lading and insurance policy have been delivered to the buyer or his agent (Seller is not responsible for the delivery of goods at destination, nor for payment by the underwriters of insurance claims), (4) provide war-risk insurance where necessary for buyer's account.

(b) Buyer must (1) be responsible for loss and/or damage thereafter, and must make all claims to which he may be entitled under the insurance directly on the underwriters, (2) take delivery and pay costs of discharge, lighterage, and landing at foreign ports of destination in accordance with bill of lading clauses, (3) pay foreign customs duties and wharfage charges, if any.

Explanations of abbreviations are given below:

F. O. B.—Free on board.
F. A. S.—Free alongside ship.
C. & F.—Cost and freight.
C. I. F.—Cost, insurance, and freight.
L. C. L.—Less than carload lot.

General Recommendations.—In reaching the conclusions set forth in this statement the conference

considered the fact that there are, in more or less common use by manufacturers in different parts of the United States, numerous variations of these abbreviations, practically all of which are employed to convey meanings substantially synonymous with those here defined. For instance, there are manufacturers who quote "f.o.b. cars," "f.o.b. works," "f.o.b. mill," or "f.o.b. factory," meaning that the seller and buyer have the same responsibilities as those set forth in section 1. The conference considered all those variations and determined to recommend the use of "f.o.b. (named point)," as "f.o.b. Detroit," "f.o.b. Pittsburgh," etc. Of the considerable number of these abbreviations which are used in the United States, the conference felt that the form "f.o.b. (named point)" is most widely used and understood, and, therefore, should be adopted as the standard of practice.

Manufacturers and exporters are urged to bear in mind that the confusion and controversies which have arisen have sprung in part from the use of an excessive number of abbreviated forms with substantially similar meanings, as well as from the use of abbreviations in a sense different from their original meanings, or in an application not originally given them and different from the sense or application understood by foreign buyers.

In simplified and standardized practice lies the best hope of reducing confusion and avoiding controversy.

The conference urges upon manufacturers and exporters the very great importance at all times of making their intention in whatever quotations they employ so thoroughly clear as to be impossible of misunderstanding or misinterpretation. It is much better to take the time and space at the outset to make the quotation clearly understood, than to be compelled in the end to go through vexatious controversy or litigation, which costs not only time and expense but customers as well. Misunderstandings can best be avoided if the seller will formulate a written statement of the general conditions under which his sales are to be made, and will see that the foreign buyer possesses these terms of sale when considering a quotation. The items which may be included in such a statement, deal with delivery, delays, partial shipments, shipping instructions, inspection, claims, damage and payment. If the contingencies are thus covered by carefully considered conditions of sale, disputes will largely be prevented.

Confusion Resulting from Certain Practices of Quotation.—The quotation "f.o.b. (named port)" as "f.o.b. New York," "f.o.b. New Orleans," "f.o.b. San Francisco," is often used by inland producers and distributors to mean merely delivery of the goods at railway terminal at the port named. This abbreviation originated as an export quotation and had no application to inland shipments. It was used only to mean delivery of the goods upon an overseas vessel at the port named. That, in fact, is the meaning universally given to the phrase among foreigners, and

is the meaning which the best practice among exporters requires it invariably to have. But because of the confusion which has arisen through the use of that form with a different meaning by inland producers and distributors, and in the interest of unmistakable clarity, the conference most strongly urges the invariable use by American manufacturers and exporters of the form "f.o.b. vessel (named port.)" This adds only one word to the abbreviated form and has the great advantage that it cannot be misunderstood. It also avoids the difficulty which might arise among foreigners not always well versed in American geography, through confusing an inland forwarding point with a shipping port at seaboard.

The conference calls attention to the fact that in selling "f.a.s. vessel" manufacturers and exporters should be careful to have their agreements with buyers cover explicitly the question of responsibility for loss after goods have been delivered on the wharf or alongside the vessel and before they are actually loaded on the ship. There is no generally established practice on this point. The recommendation of the conference in the definitions of responsibility under section 7, sets up a rule which it is hoped will lead to the establishment of a standard practice.

It is understood that the provision of lighterage covered in several of these recommendations is only within the usual free lighterage limits of the port, and that where lighterage outside such limits is required, it is for the buyer's account.

Importance of Weight Quotations.—In order to avoid confusion in another particular, attention is called to the care which must be exercised in all cases in making weight quotations. The net ton, the gross ton and the metric ton, all differ in weight. Similarly there is a variation in the use of the term "hundredweight" to mean either 100 pounds or 112 pounds. It is, therefore, not sufficient to quote a price per "ton" or per "hundredweight." Instead the conference recommends the use of the terms "ton of 2,000 pounds," "ton of 2,240 pounds," or "ton of 2,204 pounds," etc., whichever is intended.

It is also important to note that a carload lot in the United States means the quantity of the particular commodity in question necessary to obtain the carload freight rate for transportation on American railways. This quantity varies according to the commodity and also varies in different parts of the country. Certain commodities being more bulky than others, the minimum carload for them is less than for heavier products occupying less space. The load required may range anywhere from 12,000 to 90,000 pounds. Consequently, it is important, when quoting prices applicable to carload lots, to so state and to specify the minimum weight necessary to make a carload lot of the particular shipment in question.

The conference points out that in quoting "C. & F." or "c.i.f." manufacturers and exporters moving large quantities of material by one vessel should be careful to ascertain in advance the buyer's capacity to take delivery. This because, under the terms and

as a condition of making the freight rate, transportation companies may require a certain rate of discharge per day, and that rate of discharge might be in excess of the buyer's capacity to take delivery. In such event an adjustment with the transportation company would be necessary, which might affect the freight rate and consequently the price to be quoted.

Should Study Provisions of Insurance Covering Shipments.—The conference also strongly urges shippers clearly to understand the provisions of their insurance protection on all foreign sales, irrespective of the general terms used thereon. In almost all cases it should be possible, when making shipments by steamer, to obtain insurance cover giving full protection from primary shipping point to designated seaport delivery, and/or foreign port delivery. As ordinary marine insurance under F.P.A. conditions, *i.e.*, free of particular average, gives no protection against deterioration and/or damage to the merchandise itself while in transit, when caused by the recognized hazards attending such risks, shippers should endeavor in all cases to obtain insurance under W.P.A. (S.P.A.) conditions, *i.e.*, with particular average (subject to particular average), when in excess of the customary franchise of 3 per cent to 5 per cent. Under such form of insurance, underwriters will be called upon to pay claims for damages when these exceed the stipulated franchise.

The conference points out that, inasmuch as fees for consular invoices and similar items are abitrary charges fixed by foreign governments, they are not

included in the terms of "C. & F." or "c.i.f." quotation and it is part of the duty of the buyer to meet them.

Finally, the conference strongly recommends, as a most effective measure of simplification, the general practice of quoting for export, as far as possible, either "f.a.s. vessel," "f.o.b. vessel," or "c.i.f." Concentration on this small list, all of which terms are readily understood abroad and are difficult of misinterpretation, will, it is felt, be markedly influential in avoiding confusion and controversy.

APPENDIX D

Summary of Terms, Rights, and Duties in Repossession, etc.[1]

[1] From Trade Information Bulletin No. 649, Installment Selling of Automobiles in Latin America.

Also from Trade Information Bulletin No. 550, Installment Selling of Motor Vehicles in Europe.

SUMMARY OF TERMS AND PERCENTAGES FOR INSTALLMENT SALES AND REPOSSESSION IN LATIN AMERICA

Country	Per cent installment sales	Per cent repossessions	Kind of contract in use	Average per cent down payment	Average period of installment, months
CARIBBEAN AREA					
Costa Rica	90	20	Chattel mortgage	20	12
Cuba	New passenger cars 80, second-hand cars 90, trucks 90, busses 100	(1)	Conditional sale	New cars 33⅓ to 40, used cars 40, trucks 25 to 40, busses 25 to 40	New and used cars 12, trucks and busses 18
Dominican Republic	Cars 90, trucks 98	2 to 15	Hire-purchase[2]	10 to 33⅓	14 to 24
Guatemala	90 to 95	New cars 2 to 5, used cars 10 to 20, new trucks 5 to 10, used trucks 10 to 20	Hire-purchase 65 per cent, promissory notes 30 per cent conditional sale	Cars and trucks 25 to 50, busses 15 to 35	12
Haiti	75 to 80	7 to 10	Hire-purchase[3]	New cars 33⅓ to 40, used cars 25 to 40, chassis 50	8 to 12
Honduras	75 to 80	Only 1 known repossession	Conditional sale[4]	25 to 50	Cars 6, trucks 9
Mexico	90	1 to 1½	Bill of exchange,[5] (best), promissory note, (limited extent)	Cars and trucks 33⅓, busses small initial payment.	Cars and trucks 12; no general practice as to busses
Nicaragua	75[6]	None	Hire-purchase	33⅓	12
Panama and Canal Zone	New and used cars 90, trucks 95, busses 95, taxis 95	2 to 4 (new and used)	Conditional sale, hire-purchase, promissory note[7]	New 33⅓, used 50	New 12, used 6
Porto Rico	Passenger cars 80 to 90, "For-hire" cars 100, trucks 90 to 95, busses 100	Cars under 5, trucks under 10	Conditional sale	New cars 33⅓, used cars 40, trucks and busses 25	New cars 12, used cars 8 to 10, new trucks and busses 18, used trucks 8 to 12
Salvador	No estimate, but practically 100	Practically none	No standard form in effect, conditional sale, sometimes verbal	Cars 25, trucks, busses, used cars 50	3 to 10
SOUTH AMERICA					
Argentina	New cars 60, used cars 55, new trucks 80, used trucks 75, busses and taxicabs 99	3 to 4	Chattel mortgage, (prenda agraria), usually hire-purchase occasionally, promissory notes occasionally	Cars 33⅓, trucks 25, cars for taxis 25, busses 40, used cars 40 to 50	New cars 12 to 15, new trucks 12 to 18, (18 is common), new busses 18, new cars for taxis 12 to 15
Bolivia	90	10	Conditional sale	25 to 50	12 to 18

Brazil	New cars 90, used cars 70, new trucks 80, used trucks 75, busses 50, new taxicabs 95, used taxicabs 90	New cars, trucks, and taxicabs 1, used cars and trucks 3, used taxicabs 2, busses negligible	Do.	New 20 to 33⅓, used 40, few busses sold on time	New cars, trucks, and taxicabs 12 to 18, used 6 to 12, all busses 3
Chile	Cars 80, trucks 70, chassis 95	1 or less	Hire-purchase 70 per cent, conditional sale[3]	33⅓, sometimes 25	12
Colombia	98	Not known	Hire-purchase	33⅓ to 50	Cars 10 to 12, trucks 10 to 18, busses 10 to 18, used cars longer
Ecuador	90	Less than 5	Promissory notes[9]	25 to 50	Cars 6 to 10, trucks and taxis 12
Paraguay	Nearly 100	Not known	Promissory notes[10] or hire-purchase	20 to 33⅓	10
Peru	85	2	Registry receipt 50 per cent,[11] conditional sale 25 per cent, hire-purchase 25 per cent	33⅓ to 50	6 to 8
Uruguay	Cars 90, trucks 90, busses 95, taxicabs 95	1 to 2	Promissory notes, chattel mortgage[12]	33⅓	6 to 30, (18 probable average)
Venezuela	90	2 to 5	Hire-purchase	33⅓ to 50	6 to 12

[1] Estimates vary. Several companies estimate 1 per cent; others claim new passenger cars 20 per cent; used passenger cars 25 per cent; trucks, new, 5 per cent; second-hand trucks, 10 per cent; service cars, (not taxi-built), new, 10 per cent; second-hand, 30 per cent.

[2] 1 company uses chattel mortgage.

[3] 1 company uses conditional sale.

[4] The contract employed in Honduras has the characteristics of the conditional sale, except that a separate document is needed after completion of payments to pass title to purchaser, and that in case of default the seller has a right to attach not only the car but any assets of the purchaser.

[5] Mexico does not recognize any form of conditional sale, hire-purchase, or chattel mortgage.

[6] About one-fourth of imports of motor vehicles into Nicaragua reach the user direct; most of these are bought by the Government for official use; some are brought back by local residents who purchased them abroad; of the remainder, three-fourths are sold on time.

[7] 1 company employs promissory notes and in lieu of formal contract draws up contract in letter form to cover particular cases.

[8] Under conditional sale in Chile title passes immediately; hence the seller is not protected.

[9] 1 dealer uses hire-purchase.

[10] Where only promissory notes are used title evidently passes immediately to purchaser.

[11] Seller formally registers the transaction, omitting formal contract; even where the conditional-sale and hire-purchase contracts are employed they are in effect a formality, for it is the record of the sale in the books of the Federal Registry which protects the seller, permitting him to prevail against third parties. Once a vehicle is registered, a certification from the registrar is necessary to show full title.

[12] Most transactions are covered by promissory notes. A few are made in effect by chattel mortgage known as prenda industrial.

SUMMARY OF FINANCING AND INSURANCE TERMS FOR INSTALLMENT SALES IN LATIN AMERICA

Country	Average finance charge[1]	Required insurance and kind	Full premium paid by buyer at time of sale	Premium paid over period and included in finance charges	Party who places insurance	Party who receives commission	Insurance against default and conversion
CARIBBEAN AREA							
Costa Rica	Interest 12 per cent	None					
Cuba	Flat rate,[2] low-priced cars 1 per cent, high-priced cars one-half of 1 per cent monthly	No, but many dealers place fire and theft insurance					No
Dominican Republic	Flat rate, 1 to 1½ per cent of cash price	None					
Guatemala	Interest 12 per cent; occasionally flat rate 10 per cent	Do.			Bank	Bank	No
Haiti	Flat rate 10 per cent	Do.					
Honduras	Interest 10 to 12 per cent	None obtainable					No
Mexico	Interest of 24 per cent[3]	Fire, theft, collision, liability required in 10 per cent of transactions	No	Yes	Dealer	Dealer	No, for conversion; occasionally against default
Nicaragua	Interest 12 to 18 per cent	None					
Panama and Canal Zone	Interest only, 12 per cent, or flat of 9 per cent	Do.					
Porto Rico	Interest, new cars 7½ to 9 per cent, used cars 9 per cent, or combination flat charge and interest averaging 10 per cent	Fire, theft, collision by one finance company and majority of dealers.	No	Spread over term of paper but additional to finance charges	Purchaser places in company designated		No
Salvador	Interest 10 to 12 per cent	None obtainable[4]					

SOUTH AMERICA							
Argentina	Flat, 9 per cent	Fire, theft, collision, liability insurance on busses and cars for taxis only; in few larger cities required for cars also	Optional	Optional	Finance company or dealer	One placing	No
Brazil	Flat 8 per cent; sometimes 9½ per cent	None; most cars though are insured for fire, theft, and collision	Occasionally	Yes	Dealer	Dealer	Yes
Bolivia	Flat rate 10 per cent	None					
Chile	Flat 12 per cent; (6 per cent extra for insurance and other costs)	No; dealers insure themselves					
Colombia	Flat rate 1 per cent of total list price on each installment	Some dealers require fire, theft, collision	No	Yes	Dealer	Dealer occasionally	No
Ecuador	Interest 12 per cent						No
Peru	Interest 10 per cent	None[5]	(5)				
Paraguay	Interest 12 per cent						
Uruguay	Interest 8 per cent; or flat 5 to 8 per cent; banks in direct loans to purchasers 4½ to 7 per cent	Collision, liability (fire and theft also if there is no guarantor)	Yes	No	Purchaser		No
Venezuela	Interest 9 per cent	None[6]					

[1] Interest is usually computed monthly (as distinguished from a flat rate) and based on the total amount outstanding after down payment; the monthly interest charge, of course, decreases as monthly payments are made. The flat charge usually (unless otherwise shown) is a percentage of the total amount outstanding after down payment and is spread in equal amounts over the installments.

[2] A tax of 2½ per cent is now levied by the Government on all installment sales.

[3] Where competition is extremely keen, dealers sometimes reduce the interest rates to 6 per cent, occasionally foregoing it entirely.

[4] No insurance now available, but several dealers are contemplating arrangements to handle insurance. In fact, one local wholesale concern, not engaged in the automobile business, already has an agency agreement, but no business has so far developed.

[5] Competition usually forces the dealer to forego the protection of insurance; in the few cases where it is provided, the purchaser pays for it at the time of sale.

[6] If insurance is carried it is taken by owners; few now have it. Insurance on automobiles only recently became available and hence is not widespread.

SUMMARY OF RIGHTS AND DUTIES IN REPOSSESSION AND RESALE FOR INSTALLMENT SALES IN LATIN AMERICA

Country	Party who repossesses	Party who sells	Party who bears deficit	Purchaser liable for deficit	Purchaser entitled to difference	Repossession against trustee in bankruptcy	Repossession against innocent third party	Buyer criminally liable if he sells or leaves country	Registration of contracts necessary to be binding on third parties
CARIBBEAN AREA									
Costa Rica	Dealer	Dealer	Dealer	Yes	Yes	Yes	Yes	Yes	
Cuba	Do.	Do.	Do.	No	No	Yes	Yes	No	Yes, if a guarantor has signed the contract
Dominican Republic	Finance company	Finance company and dealer	Finance company	Yes	Yes	Yes	No	Yes	Not binding on third parties; must be registered to be binding on contracting parties
Guatemala	Dealer	Dealer	Dealer	No	No	Only under hire-purchase	Only under hire-purchase	Yes, under hire-purchase	No registration
Haiti	Do.	Do.	Do.	Probably	No	Yes	Yes	Yes	Yes
Honduras	Court or dealer[1]	Court or dealer[1]	Do.	Yes	Yes	Yes	No	Yes	Not binding
Mexico	Court	Court	Do.	Yes	Probably	No	No	No	Do.
Nicaragua	Dealer[2]	Dealer[2]	Do.	No	Law not settled; depends on agreement	No[3]	No[3]	Yes	Yes
Panama and Canal Zone	Do.	Do.	Do.	No	No	Yes	Yes	Yes	Yes
Porto Rico	Do.	Do.	Do.	Yes	Yes	Yes	Yes	Yes, if he sells, not if he leaves	Yes
Salvador	Do.	Do.	Do.	No[4]	No[4]	Yes	Yes		

SOUTH AMERICA									
Argentina	Court	Court	Dealer	Yes	Yes	Yes, under prenda agraria	Yes, under prenda agraria	Yes, under prenda agraria	Yes
Brazil	Dealer	Dealer	Do.	No	No	Yes	Yes	Yes	Yes
Bolivia	Do.	Do.	Do.	No		Yes	Yes	No	No
Chile	Arbitrator provided in hire-purchase contract	Do.	Do.	No (it would seem)	Yes	Yes, under hire-purchase: no, under conditional sale	Yes, under hire-purchase; no, under conditional sale	Not known	Not known
Colombia	Dealer	Do.	Do.	Yes	Yes	Yes	Yes	Yes	No
Ecuador	No repossession usually	Do.	Do.[5]	Yes[5]	([5])	No	Not usually: special contract necessary	No	Yes
Peru	Dealer	Do.	Do.	Yes	Yes	Yes	Yes	Yes	Yes
Paraguay	Dealer, under hire-purchase only	Do.	Do.			No	No	Yes	Not binding
Uruguay	Court[6]	Court	Do.	Yes	Yes	No[7]	No[7]	No[7]	Yes
Venezuela	Do.	Do.	Do.	Yes		No	No	Probably	Not binding

[1] Court makes formal, dealer informal, repossession.

[2] There have been, so far as can be learned, no actual instances of repossession legally. There is no legislation on the subject of installment selling of automobiles should court action become necessary, the decision would probably require the sale of the car by dealer under supervision of the court. General laws governing mortgages are applicable.

[3] Innocent purchaser prevails even where seller's title is defective, unless resale has been made before a notary with notice that the article is hired.

[4] No rule as to purchaser being liable for deficit or having excess returned to him; it is believed, however, that the dealer can compel the purchaser to make good a deficit if he is financially able.

[5] Dealers generally are uninterested in repossession; they sue the purchaser, whose entire assets are liable. 1 dealer, using hire-purchase, reserves right to repossess, but no actual case has yet arisen.

[6] Repossession is not possible except in the infrequent cases of the prenda industrial; then the court must order the public sale of the vehicle.

[7] Where prenda industrial is employed, repossession is good against trustee in bankruptcy or against an innocent purchaser, and purchaser is criminally liable if he sells or moves car abroad without authorization.

SUMMARY OF DISCOUNT, GUARANTY, AND CREDIT PRACTICES AND FACILITIES FOR INSTALLMENT SALES IN LATIN AMERICA

Country	Do banks discount?	Do dealers carry own paper?	Do dealers guarantee paper to finance company?	Do dealers contract to repurchase and resell?	Are other indorsers required by dealer?	Are any credit facilities not available for American makes?	Would better sales result for improved credit facilities?
CARIBBEAN AREA							
Costa Rica	Yes	No		No	Yes	None	Present facilities appear adequate
Cuba	Yes; at 8 to 10 per cent	A good many	Occasionally	No settled practice	No settled practice	Do.	Yes; especially sales of smaller agencies
Dominican Republic	Occasionally at 12 per cent	2 dealers	Yes	Some do		Do.	Yes; considerably
Guatemala	Reluctantly	Very few	No finance companies	No	Yes	Yes	Yes; 5 to 10 per cent
Haiti	Yes	To some extent	Yes		Optional	None	No; easier credit would tend to increase defaults
Honduras	Yes	Do.	No finance companies	No	Yes	Do.	Yes; double
Mexico	Not usually; sometimes accept as collateral	About 5 per cent	Yes	Yes	1	Do.	No; but lower interest rates are needed
Nicaragua	Yes	Yes	No finance companies		1	Do.	Yes
Panama and Canal Zone	Not readily	Majority do	Do.	No	Not usually	Do[1]	Yes; 15 per cent
Porto Rico	Limited extent at 8 to 9 per cent	Yes	Yes	Yes	Yes	Do.	No
Salvador	Not readily; only when paper is unusually good; 10 to 12 per cent	Yes				Do.	Dealers think not; bankers think better facilities would increase sales of medium and low-priced cars; consulate believes of high-price cars also

SOUTH AMERICA							
Argentina	Yes; 6 to 9 per cent	A few	Usually	No	Usually	Do.	No; present facilities adequate
Brazil	Not usually; occasionally at 12 per cent	Very few	Yes	Yes	Not usually	Do.	No
Bolivia	Yes; some	Most of them	No finance companies	No	2	Yes[2]	Slightly
Chile	Seldom	Usually	Yes	No	No	None	Yes
Colombia	Yes; 9 per cent	Some	Yes	Yes	Occasionally	Do.	No
Ecuador	Yes; limited extent at 12 per cent	Do.	No finance companies	No	Yes	Do.	Yes; 25 per cent
Peru	Yes; 9 per cent, 90 days	Larger ones	Do.	No	Sometimes	Do.	Only slightly, if at all
Paraguay	Not readily	Yes	Do.		Yes	No	Not known
Uruguay	Yes; common procedure is use of paper as collateral for 80 per cent of value for loans at 8 per cent	Some	Yes; in the case of the 1 finance company	No	Yes	None	No
Venezuela	Yes; 7 to 9 per cent	Yes	No finance companies	No	Yes	Do.	Yes

[1] No European cars on this market.
[2] European manufacturers offer dealers credit of 1 to 2 years; American manufacturers require cash. American companies monopolize business, however

SUMMARY OF TERMS AND PERCENTAGES FOR INSTALLMENT SALES AND REPOSSESSION IN EUROPE

Country	Per cent installment sales	Per cent repossessions	Kind of contract	Average per cent down payment	Average period of installment, months
Austria	Cars, 70; trucks, 80; taxis, 90; busses, 80	Cars, under 2; trucks, about 1; taxis, about 1; busses, about 1	Conditional sale [1]	25 to 33	12; 18 in exceptional cases
Belgium	Cars, 30; trucks, 60; busses, 60; taxis, 60	Under 1	Do.	Cars, 25; busses, 33⅓; taxis, 33⅓	12; 18 in exceptional cases
Czechoslovakia	Cars, 60; trucks, 80; busses (few sold); taxis (used vehicles, cash only) 90	Under 2	Do.	25 to 30	12; occasionally 18 to 24
Denmark	80 to 85	½ for cars, trucks and busses; ½ to 1½ for taxis	Do.	25 if for 1 year; 33⅓ if over year	Cars, 12 to 18; trucks, 24; busses and taxis, 24 to 36
Finland	90	Insignificant	Hire-purchase	33⅓	18; sometimes 24 for busses
France	Cars, 50;[2] trucks, 75; busses and taxis, 90	Under ½	Conditional sale	25 to 33	Cars, 12 to 18; trucks, busses, and taxis, 18
Germany	Cars, 75; busses and taxis, 100; trucks, 100[3]	Under 1	Do.	25	18; sometimes 12 or 24
Greece	Cars, 80; trucks, 95; busses and taxis, 100	Cars, 1; trucks, 0; busses, 3; taxis, 10	Hire-purchase (usually); chattel mortgage	Cars, 25 to 33; trucks, 30 to 35; busses, 15 to 5; cabs, 30	Cars, trucks and busses, 12 to 18; cabs, 18 to 24

					12
Italy	Cars, 75;[4] trucks, busses and taxis, 85 to 90	Small	Chattel mortgage	25 to 33⅓	Cars, 12; others, 18
Netherlands	Cars, 60; trucks, 80; busses, 95; taxis, 90	½ to 1	Hire-purchase	25	American cars, 6 to 9; European, longer
Poland	90[5]	Less than 1	Conditional sale in Austrian and German Poland; in Congress Poland, notes only.	American cars, 40; European cars lower	3 and 6
			Hire-purchase	50	6, 9, and 12
Rumania	90	2 to 5	Do.	25	18
Spain	New, 15; used, 5[6]	No estimate few	Do.	New, 33⅓; used 40	
Sweden	Cars, 65 to 70; trucks, 70 to 75; busses, 75 to 80; taxis, 80 to 90	4	Conditional sale	25	12; some 6 to 18
Switzerland	No estimates	No estimates	Notes and special contract[7]	10 to 50	4 to 18
Turkey	80 to 90	Less than 1	Hire-purchase	25	Cars and trucks, 18; busses, 12; cabs, 24
United Kingdom	Cars, 60; trucks, 50; busses, 40; taxis, 75	1½			

[1] 1 Austrian company and 1 Belgian company use hire-purchase.
[2] 50 per cent of low-price cars are sold on installment plan; the ratio decreases as the price increases.
[3] Large customers pay cash for trucks; percentage for small customers, 100.
[4] The estimate of 75 per cent is on the basis of Fiat sales, but it is believed that it will apply to the total of all sales.
[5] Government sales are for cash; on individual sales alone the estimate is 100 per cent.
[6] Taxi, bus, and truck sales on installment plan are greater than in the case of passenger cars.
[7] Conditional-sale and hire-purchase contracts not recognized; but a special contract, duly registered, gives the seller right to regain title in certain cases.

SUMMARY OF FINANCING AND INSURANCE TERMS FOR INSTALLMENT SALES IN EUROPE

Country	Average finance charge[1]	Compulsory insurance and kind	Full premium paid by buyer at time of sale	Premium paid over period and included in finance charges	Party who places insurance	Party who receives commission	Insurance against default and conversion
Austria	Interest 12 to 24 per cent monthly	Fire, theft, collision, liability	Usually, but always at least 50 per cent in advance	In exceptional cases	Finance company[2]	Finance company	No
Belgium	Flat charge, 8 per cent[3]	Do.	Yes		Do.	Finance company shares with dealer	Sometimes
Czechoslovakia	Flat charge only, 7½ to 11 per cent	Fire, theft, collision	Yes	Occasionally	Do.	Do.	No
Denmark	Flat charge, 6 to 7¾ per cent	Do.	Sometimes[4]	Sometimes[4]	Often dealer; occasionally finance company in cooperation with insurance company	Occasionally finance company; or dealer as subagent	No[5]
Finland	Interest 10½ to 11 per cent, with flat charge of 2 per cent for 1 year	Do.	Paid by seller and included in sale price	Yes	Finance company	Finance company	Yes, for default; not for commission
France	Flat charge	Do.	Yes		Do.	Do.	Yes
Germany	Flat charge, 9 per cent for 12 months; 13½ per cent for 18 months	Fire, theft, collision, liability	No	Yes	Do.	Finance company shares with dealer	Yes
Greece	Flat rate, 8 per cent; or interest, 15 to 16 per cent	Fire, collision, liability		Yes; sometimes in installments under separate agreement	Dealer	Dealer	No

Italy	Interest, 7 to 8 per cent	Fire, theft, collision	Yes		Do.	No one	No[6]
Netherlands	Flat charge, 5 to 7 per cent	Fire, theft, collision, liability	Yes	Occasionally	Finance company	Finance company and dealer share occasionally	No
Poland	Interest usually at 12 per cent and flat charge 5 per cent	Do.	Yes	Yes	Dealer	Dealer	No finance company
Rumania	Interest, 18 to 24 per cent	Fire, theft, collision		Yes	Do.	No commission	Do.
Spain	Interest, 5 per cent, plus flat charge included in down payment	Fire, theft, collision, liability	Yes		Finance company occasionally; dealer occasionally	Finance company occasionally; dealer occasionally	Occasionally
Sweden	Flat rate, 6 to 8 per cent	Do.[7]	Yes	Occasionally	Finance company or dealer	Finance company or dealer	No
Switzerland	Flat charge, 6 to 8 per cent	Fire, theft, collision		Yes	Finance company	Finance company	No
Turkey	Interest only or interest plus flat charge[8]	No					No finance company
United Kingdom	Flat rate, 5 to 7 per cent	Fire, theft, collision, liability	Yes		Occasionally dealer; often finance company	Finance company or dealer	Yes

[1] Interest is usually computed monthly, as distinguished from flat rate, when the charge is based on the total amount outstanding after down payment.
[2] Often a finance company is affiliated with the insurance company, or a finance company is operated by the insurance company.
[3] The flat charge usually (unless otherwise shown) is a percentage of the total amount outstanding after the down payment and is spread over the period of installments.
[4] Danish companies require insurance premium at purchases; American finance companies usually allow premium to be added to installments; European companies use both methods.
[5] 1 American company requires this insurance.
[6] Fiat only company using this insurance.
[7] For 1 year only.
[8] Interest here usually is figured monthly, added to total outstanding obligation, and then divided in installments.

SUMMARY OF RIGHTS AND DUTIES IN REPOSSESSION AND RESALE FOR INSTALLMENT SALES IN EUROPE

Country	Party who repossesses	Party who sells	Party who bears deficit	Purchaser liable for deficit	Purchaser entitled to difference	Repossession against trustee in bankruptcy	Repossession against innocent third party	Buyer criminally liable if he sells or leaves country	Registration of contracts necessary to be binding on third parties
Austria	Finance company	Finance company	Finance company	Yes	Yes	Yes	No	Yes	Not binding
Belgium	Finance company; or dealer as agent	Finance company; or dealer as agent	Do.	Yes	Yes	Question not yet settled	No	No	Do.
Czechoslovakia	Dealer	Dealer	Dealer	Yes	Yes	Yes	No	No	Do.
Denmark	Do.	Do.	Do.	Yes	Yes	Yes	Yes	Yes, if he sells; no, if he leaves country	No
Finland	Do.	Do.	Do.	No	No	Yes	Yes	Yes	No
France	Insurance company through dealer	Insurance company through dealer	Insurance company[1]	Yes	Yes	No	No	Yes in theory not actually	Not binding
Germany	Dealer usually	Dealer[2]	Dealer	Yes	Yes	Yes	No	Yes	Do.
Greece	Dealer	Do.	Do.	Yes	Yes	Yes	Yes	No	Yes
Italy	Do.	Do.	Do.	No	No	Yes	Yes	No[3]	Yes
Netherlands	Finance company	Finance company	Finance company	Yes	No	Yes	No	Yes	Not binding
Poland	Dealer	Dealer	Dealer	Yes	Yes	(4)	No	(5)	Do.

Rumania	Do.	Do.	Do.	Yes	No	Yes[6]	Yes[6]	No	No
Spain	Do.	Do.	Do.	No	No	Yes	No	Yes	Unsettled; not binding
Sweden	Do.	Do.	Do.	Yes[7]	Yes	Yes	No	Yes[8]	No
Switzerland	Dealer as agent	Do.	Finance company	No	Not compulsory, but customary	Yes	Yes	Yes	Yes
Turkey	Dealer	Do.	Dealer	Yes	Not usually[9]	No	Usually	No	Yes
United Kingdom	Finance company	Dealer as agent	Do.	Yes	Not compulsory, but customary	Yes	Yes	Yes	No

[1] Insurance company bears three-fourths; dealer the remainder.
[2] When finance company occasionally repossesses, it also sells.
[3] Buyer can not get out of Italy without proper papers.
[4] In German and Austrian Poland, in conditional-sales contract, the owner may recover against trustee in bankruptcy; in Congress Poland the matter is unsettled, but at present it does not recognize conditional sale.
[5] In German and Austrian Poland, buyer is criminally liable; in Congress Poland he is not.
[6] Recent court decisions, however, indicate contrary for the future or until appropriate legislation.
[7] If cost of car is more than 3,000 crowns, purchaser is liable for deficit, if 3,000 crowns or less, not liable.
[8] Criminally liable, unless he continues to make payments.
[9] Usual practice is to insert a special clause and to register the agreement, so as to enable dealer to repossess and sell without excess being returned to purchaser; otherwise, even if registered and repossessed, excess must be returned to purchaser.

SUMMARY OF DISCOUNT, GUARANTY, AND CREDIT PRACTICES AND FACILITIES FOR INSTALLMENT SALES IN EUROPE

Country	Do banks discount?	Do dealers carry own paper?	Do dealers guarantee paper to finance company?	Do dealers contract to repurchase and resell?	Are other indorsers required?	Are any credit facilities not available for American makes?	Would better sales result from improved credit facilities?
Austria	No	No	No	No	Occasionally	Yes (Steyr)	No
Belgium	Occasionally	No[1]	No[2]		No	No	No
Czechoslovakia	No	Larger ones do	Yes		No	No; Americans have best facilities	Yes, but not immediately
Denmark	Not usually	No	Yes	Yes	No	No	No
Finland	Yes	No[3]	Yes		Two	No	No
France	No	No	20 to 25 per cent[4]	Sometimes	Sometimes	No	Yes[5]
Germany	No	Rarely	Yes	Yes	If customer is weak financially	Yes	No
Greece	Yes	Yes	Yes		1	Yes (Fiat)	No
Italy	Not readily	Yes[6]	Yes		No	Yes	Yes
Netherlands	Not often	No	No	Yes	Occasionally	No	Yes
Poland	Yes	Seldom	Yes, to bank; no finance company	No	In Congress Poland only	No	No
Rumania	No, but accept as collateral	Yes	No finance company			Yes	Yes
Spain	Yes	Yes	Yes	Yes	Usually	No	Yes
Sweden	Yes	No	(7)	No[8]	No[9]	No	No
Switzerland	Limited extent	Often	No	No	No	No	No
Turkey	Rarely	Yes	No finance company		Yes	Yes	Yes
United Kingdom	No	Some	Frequently	Frequently	Usually	No	No

[1] Two dealers carry their own paper.
[2] Belgian companies do not require dealers to guarantee their paper, but 2 American companies do so require.
[3] Two companies in Finland carry their own paper.
[4] Finance company assumes 75 to 80 per cent of the risk; dealer assumes the remainder.
[5] Better facilities would produce better sales; French cars would benefit most.
[6] Fiat dealers do not have to carry their own paper, as the parent company extends the necessary credit.
[7] Paper discounted with Swedish finance company need not be indorsed, but if purchaser is poor credit risk, dealer indorses notes and agrees to repurchase car in case of default. American companies and Swedish banks require dealers' indorsement.
[8] See footnote No. 7, preceding.
[9] Two indorsers as to signature but with no liability; in case of minor, dealer and another indorser required.

APPENDIX E

Credit and Payment Terms Abroad

Latin America

Country	*Usual Tenor*		*How Drawn*	*Documents Against*	*Remarks*
Argentina	60–90	days	Sight	Acceptance	2%—10 days
Bahamas	30–60	"	"	"	" " "
Barbados	30	"	"	"	2–2½% cash on arrival
Bermuda	30–90	"	"	"	" " "
Bolivia	60–90	"	"	Payment	Care in extending credit
Brazil	60–90	"	"	Acceptance	1%–2% cash on arrival
	120–180	"	Date	"	
British Guiana	30–60	"	Sight	"	Cash recommended
British Honduras	30–60	"	"	Payment	" "
British West Indies	30–60	"	"	Acceptance	2–2½% cash on arrival
Chile	30–60–90	"	"	"	With interest
	180		Date		
Colombia	60–90–120	"	Sight	Payment	No shipments "to order"
Costa Rica	30–60	"	"	"	Cash against documents
Cuba	30–90	"	"	"	Care in extending credit
Dominican Republic	30–90	"	"	Acceptance	" " " "
Dutch Guiana	30–60	"	"	"	Initial business cash
Dutch West Indies	30–60	"	"	"	" " "
Ecuador	30–60	"	"	Payment	Cash recommended
French Guiana	30–60	"	"	Acceptance	Initial business cash
French West Indies	30–60	"	"	"	2–2½% cash on arrival
Guatemala	30–60–90	"	"	Payment	" " " "
Haiti	30–90	"	"	"	Care in extending credit
Honduras	30–60–90	"	"	"	" " " "
Jamaica	60–90	"	"	"	2–2½% cash on arrival
Mexico	30–90	"	"	"	" " " "
Nicaragua	30–60–90	"	"	"	Cash recommended
Paraguay	60–90	"	"	"	Strong firms only against acceptance
Peru	60–120	"	"	Acceptance	With interest
Porto Rico	60–90	"	"	Payment	Care in extending credit
Uruguay	30–60–90	"	"	Acceptance	2–2½% cash on arrival
Venezuela	30–60–90	"	"	Payment	No shipments "to order"

EUROPE

Country	*Usual Tenor*	*How Drawn*	*Documents Against*	*Remarks*
Albania	30 days	Sight	Payment	Cash against documents
Austria	30–60–90 days	"	Acceptance	2%—30—net—60 days 2½–3%—cash on arrival
Azores	60–90 "	"	Irrevocable Credit	Cash with order
Belgium	30–60–90 "	"	Acceptance	2–2½%—30 days 3–3½%—cash on arrival
Bulgaria	30–90 "	"	"	Bank guarantee
Canary Islands	30–60–90 "	"	"	Care in extending credit
Czechoslovakia	30–60–90 "	"	"	2–2½%—30 net, 60–90 days
Danzig	30–60 "	"	"	Small transactions cash
Denmark	30–60–90 "	"	"	2%–30—1%–60—net 90 days 2½–3% cash on arrival
England	30–60–90 "	"	"	Discounts usual but variable
Estonia	30–90 "	"	"	2–2½%—30 days
Finland	30–60 "	"	"	2–2½%—30 days
France	30–60–90 "	"	"	2–3%–10 days—1–2%–30 days
Germany	30–60–90 "	"	"	2–3%–10 days—1–2%–30 days
Greece	30–60–90 "	"	"	Confirmed & irrevocable credit
Greenland	60 "	"	"	Care in extending credit
Hungary	90–180 "	"	Payment	25% cash payment
Iceland	30–60 "	"	Acceptance	Indirect trade
Irish Free State	30–60–90 "	"	"	2½–3¾%—30 days
Italy	30–60–90 "	"	"	2%—30 days net 60–90 days 2–2½% cash on arrival
Jugoslavia	30–90 "	"	Payment	Shipment through bank
Latvia	30–90 "	"	Acceptance	2–2½%—30 days
Lithuania	30–60–90 "	"	"	2–2½%—30 days, net 60 days
Luxemburg	30–60–90 "	"	"	2–2½%—30 days
Madeira	60–90 "	"	Payment	Care in extending credit
Netherlands	30–90 "	"	Acceptance	2–3%—30 days 3½–5%—cash on arrival
Norway	30–60–90 "	"	"	" " " " " "
Malta	30–60–90 "	"	"	Initial order cash
Poland	60–90–120 "	"	"	Bank guarantee
Portugal	30–60–90 "	"	"	2–2½% cash on arrival
Rumania	60–90–120 "	"	"	Bank guarantee
Scotland	30–60 "	"	"	2–3%—10 days
Spain	30–60–90 "	"	"	2% for cash on arrival 1½% for cash 30 days
Sweden	30–60 days	Sight	Acceptance	2–2½%—30 days 2½–3%—60 days 5%—10 days
Turkey	60–90 "	"	Payment	25% with order

Africa and Far East

Country	*Usual Tenor*	*How Drawn*	*Documents Against*	*Remarks*
British East Africa	60–90 days	Sight	Payment	Cash against documents
French West Africa	60–90 "	"	Acceptance	5% cash on arrival
Portuguese " "	60–120 "	"		Through N. Y. "Confirming House"
Angola	60–90 "	"	Payment	Cash against documents
Algeria	60–90 "	"	Acceptance	Long term demanded
Arabia	60–90 "	"	Payment	Cash against documents
Australia	60–90 "	"		Through N. Y. "Confirming House"
British Malaya	60–90 "	"	Acceptance	Long credit not wise
China	60–90 "	"	Payment	"Authority to Purchase"
Chosen (Korea)	30–90 "	"	"	Cash against documents
Egypt	60–120 "	"	"	" " "
Ethiopia	30–60 "	"	"	25% cash with order
French Indo China	60–90 "	"	"	Better terms to some firms
Hawaii			Usual terms granted in U. S.	
India	60–90 "	"	Payment	Irrevocable L/C
Iraq	60–120 "	"	"	25% cash with order
Japan	30–90 "	"	"	Irrevocable L/C
Liberia	30–60 "	"	"	New accounts cash with order
Madagascar	30–60–90 "	"	"	" " " " "
Manchuria	60–90 "	"	"	Through Shanghai
Morocco	30–90 "	"	"	Credit on investigation
Netherlands East Indies	30–60–90 "	"	Acceptance	Through Europe
New Zealand	30–90 "	"	Payment	Open a/c on investigation
Palestine	60–120 "	"	"	New a/c cash in advance
Persia	60–120 "	"	"	25% cash with order
Philippines	30–60–90 "	"	Payment & Acceptance	L/C/ or A/P
Siam	30–60–90 "	"	Payment	Through Singapore
Syria	60–90 "	"	Bank Guaranty	25% cash with order
Tahiti	(Shipments made against consignment of raw products)			
Tunisia	60–90 days	Sight	Payment	Cash against documents

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